BRITAIN UNDER PROTECTION

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An Examination of the Government's Protectionist Policy

by

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Foreword by

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FOREWORD

FOR *three years Great Britain* has been a Protectionist country. The Import Duties Act and the Ottawa Agreements are based upon four main principles—the use of the tariff as an instrument of revenue, its use as a bargaining weapon, its use as a means of affording protection to manufacturers at home, and its use as a means of fostering trade by preferential arrangements between Great Britain and the Dominions and Colonies.

To Free Traders it appeared that these principles, were mutually inconsistent. If tariffs were to be relied upon as an instrument of revenue, then the higher they were raised, the smaller would be our imports and therefore the smaller our revenue. Conversely, as the revenue could only be obtained from the admission of imports, the larger the imports, the greater the revenue—and the less the protection for the home producer.

Again, the greater the encouragement given by tariffs or quotas to the home farmer, the less would be the advantage to the Dominions; and, conversely, the greater the advantages to Dominion imports in our markets, the greater the incentive that would be given to the Dominion producer to increase his production and intensify his competition with the home farmer.

Or again, if Protection were to be given to certain industries—say iron and steel—it was unlikely that those industries would consent to be deprived of the advantages merely because some country had, as a result of a trade agreement, given advantages in its markets to the boot and shoe or some other industry. Moreover, revenue would suffer, and the Dominions would complain if they were deprived of any of their preferential advantages. Consequently it seemed to Free Traders that the use of the tariff as a bargaining weapon was inconsistent with and

would in practice be subordinated to the other three principles which underlay the Import Duties Act. The paltry Trading Agreements concluded by the present Government justify these forebodings.

If the results of Protection are accurately to be appraised, it is important for purposes of comparison to recall the results of Free Trade. In the course of a century the population and the wealth of the country were quadrupled, the standard of living enjoyed by the people was the highest in the world, and wealth was accumulated which enabled this country to finance not only its own prodigious war effort but also the efforts of its Protectionist allies.

The policy of Protection has been tried for three years. Its effects on our trade will be measured by comparison both with the year of the crisis, 1931, and the last year of normal trade, 1929. Let us consider quite objectively whether it is helping or hindering the nation in its effort to restore prosperity, or whether it even offers any promise of enabling us to return to that moderate scale of economic recovery from the ravages of the War and the shock of the General Strike, which we were experiencing in 1927, 1928, and 1929.

In surveying the results of Protection, Mr. Ranald Findlay is rendering a public service. His survey is thorough, comprehensive, and clear. He gives chapter and verse for his facts and cites authorities of eminence and political impartiality in support of his opinions.

Mr. Findlay not only dispels the illusion that through Protection we may regain prosperity, but he also demonstrates the grave danger that economic warfare, which is the inevitable consequence of competitive economic armaments—tariffs, quotas, and the like—will gravely exacerbate international relationships in a world in which the economic interdependence of nations is a factor of ever-increasing significance.

The task of the rising generation of industrialists, business men, economists, and politicians will be to break through the entanglements of tariffs and quotas and to restore international trade, and in so doing promote the peace of the world, the liberty of the subject, and the prosperity of our country.

ARCHIBALD SINCLAIR

August 26, 1934

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CHAPTER I

THE CRISIS OF 1931

WHEN the crisis of 1931 came upon us, following the publication of the May Report, the maintenance of the pound sterling and the restoration of the "balance of trade" were the topics around which controversy raged most keenly. In the section on "The Balance of Trade" I discuss this situation in some detail. It is enough at this stage to point out that with our departure from the Gold Standard and the depreciation of the exchange value of the pound, the "balance of trade" plea for temporary tariffs lost much of its validity.

Yet a full-blooded Protectionist system was established, in great haste and with little more than the pretence of an impartial inquiry, in violation of the pledges which Ministers had given when they were seeking the votes of the people at the General Election in October of 1931.

I would refresh the reader's memory with the assurances of the leaders whose influence was mainly responsible for the return of the Government:

> "I ask the country to give me a mandate to go back to the House of Commons to help to balance our trade and so put our finances upon a sound footing. I am not going to be run by any party. I do not know what might have happened if an election had been fought by the Conservatives standing alone, but they are not. It may be that they might try and put something over us. I am not their man. I am going to inquire into tariffs with an open mind, but if there is to be any partisan manœuvring, then again I am not their man."—*The Prime Minister.*

"What is the fundamental issue? It is not Socialism: it is not Free Trade: it is not Protection. Perhaps I should say a word about those who have tried to confuse the issue with attempts to revive the Free Trade–Protection controversy of twenty-five years ago. That is not the real issue."—*Mr. Baldwin.*

"All these matters are going to be examined carefully, thoroughly, exhaustively, impartially, by the National Government when it is formed again. You have not got to decide to-morrow whether you are going to have a tariff or Free Trade." —*Mr. Neville Chamberlain.*

"We all joined the Government on the clear understanding that controversial party questions will be set aside until we have completed the task of restoring national solvency. I do not believe that the Conservative leaders would regard a majority obtained in the circumstances of this Election as giving them a mandate to carry a general system of Protection in the new Parliament. Such a radical departure from our established fiscal system could not be made without an emphatic and unequivocal decision of the electorate."—*Viscount Snowden.*

"We feel bound to declare our views that, whatever emergency measures might be found to be necessary to deal with the immediate situation, freedom of trade is the only permanent basis for our economic prosperity, and for the welfare of the Empire and of the world. Taxation of the staple foods of the people has always been opposed by the Liberal Party, and would lay fresh burdens on those least able to bear it."—*The Liberal Ministers.*

The resignation of Viscount Snowden and the Liberal Ministers was the logical outcome of the betrayal that followed.

CHAPTER II

THE NEW DUTIES

THE ABNORMAL IMPORTATIONS (CUSTOMS DUTIES) ACT, 1931.—The first of the new duties were imposed under the Abnormal Importations (Customs Duties) Act, 1931. They applied exclusively to articles Wholly or Mainly Manufactured which were being imported in abnormal quantities. No definition of the term "abnormal" was offered, so that the Board of Trade had ample scope in which to work.

Nor did any of the conditions attached cramp the Department's style. Orders for new duties were to be placed before Parliament as soon as possible, and passed within twenty-eight days. Duties were not to exceed 100 per cent. The duties were to be added to existing duties, if any. They were not to apply to Empire products. Goods in transit (i.e. goods simply transferred from one boat to another at the docks) were to escape the impositions, but no allowance was made for rebates of the duty on re-exports. The Act was to apply for a period of six months only. These, it was emphasized, were purely temporary duties, and as such they were accepted, not without suspicion, by many perfectly good Free Traders, including the late Lord Grey.

THE FIRST ORDERS.—When the Act was formally passed, three Tariff Orders were quickly issued, levying duties of 50 per cent on a wide variety of foreign goods in addition to existing duties. The first Order, dated November 20, 1931, included domestic pottery, sanitary ware, tiles, domestic glassware, metal furniture, cutlery, tools, typewriters, woollen manufactures, carpets, stockings, linen goods, gloves, paper, tyres, toilet requisites, and linoleum.

The second Order, dated November 30th, included glass bottles and jars, woollen yarn, coir mats and matting, household linen, jute carpets and rugs, sporting guns, and domestic metal utensils.

The third Order, dated December 17th, included illuminating glassware, cameras, wireless components, electric lamps, electric fittings, lawn mowers, cotton manufactures, ropes, miscellaneous garments, fertilizers, cartridges, and cases.

The total value of the imports taxed under this Act, taking 1930, *the year before the first duties were imposed, as our criterion, was £50,000,000.*

FIRST EFFECTS.—These 50 per cent duties had the desired effect, in most cases, of putting a stop to the foreigner's attempt to send in abnormal supplies in anticipation of the duties which were to be imposed under a general system of Protection later on. That such a system of tariffs was to be introduced, there was little doubt in the minds of Free Traders, although Government spokesmen continued to assure the public that the question was an open one which was receiving impartial consideration.

The duties had the effect, as we shall notice further on, of provoking retaliation in various forms, with a consequent shrinkage in our overseas trade as a whole. Many orders for British goods were cancelled or cut down. Added to the exchange handicap which our departure from the Gold Standard had placed upon imports from countries still on gold, *the new duties brought the total charges on such goods up to nearly 100 per cent.*

The refusal to allow rebates on re-exports placed a heavy handicap on our merchants, over £4,000,000 worth of goods being involved, and robbed us of part of our dominance as the chief distributing market for the world's wares, with the profits and advantages attached.

EARLY ANOMALIES.—The Orders were not free from those anomalies of tariff-making which had revealed themselves in other countries. Although the new duties applied only to goods entering under the head of "Goods Wholly or Mainly Manufactured," *they were in fact levied upon several important materials of production*, such as wrapping papers, woollen yarns, jute tissues, and chemical materials. Many of our cottons and linens sent abroad for finishing and dyeing were taxed as though they were foreign goods on their return. Particulars of further anomalies arising out of these impositions will be given later on.

THE HORTICULTURAL PRODUCTS (EMERGENCY CUSTOMS DUTIES) ACT, 1932.—The next series of import duties was authorized by the Horticultural Products (Emergency Customs Duties) Act. Again, it was stipulated that the duties should not exceed 100 per cent, and the twenty-eight day provision contained in the Abnormal Imports Act was also a condition of this one. The authorities were given freedom to tax goods on a weight or value basis, but in practice only the weight basis was used in the first Orders.

The Act was to last for a period of twelve months—another "purely emergency" measure. Its object was frankly protective, for the benefit of British growers of fruit, vegetables, and flowers, who found that the early supplies of foreign produce, so acceptable to British consumers, took the edge off the spring and early summer market prices.

Substantial luxury duties were accordingly placed upon a wide variety of fresh fruits, vegetables, and flowers for periods ranging from two to six months—with the exception of mushrooms and cut flowers of certain kinds which were to be allowed to enter free of duty for two weeks in the year!

THE IMPORT DUTIES ACT.—*The inevitable result of returning a predominantly Protectionist Government to power was the Import Duties Act, which authorized in Great Britain the general system of Protection which the leading Government spokesmen at the General Election had said was not contemplated.*

This Act provided for 10 per cent duties to take effect from March 1, 1932, on all foreign goods which were not already taxed, with the exception of a small number of goods which were to remain on the Free List in the meantime. A Tariff Advisory Committee was to be set up immediately to advise the Treasury. The Act provided also for the further taxation of any goods upon which the Tariff Advisory Committee deemed the 10 per cent duties insufficient. The first recommendations under this clause were issued on April 19, 1932, and the additional duties came into force one week later.

THE ADDITIONAL DUTIES.—A small class of goods was subjected to duties of 33⅓ per cent, in addition to the 10 per cent, "to round off the McKenna Duties" of an earlier Government. Shell fish, oysters, toilet requisites and preparations, beads, artificial flowers, jewellery, and one or two other articles were made dutiable at 30 per cent. Preserved fruit, leather goods, small arms, sports and tobacco requisites were the chief goods in a small class taxed at 25 per cent.

A long list of articles became liable to duties of 20 per cent, including condensed milk, preserved vegetables, pottery products, glassware, metal furniture, hollow-ware, iron and steel tubes and pipes, springs, wire, nails, screws, bolts, nuts, and other iron and steel products, machine tools, machinery, blankets, carpets, rugs, and other textiles, boots and shoes, apparel, manufactures of wood, chemicals, paints and colours, paper, rubber goods, brooms and brushes, cork manufactures, stationery

requisites, umbrellas, and walking-sticks. Duties of 15 per cent were levied upon such goods as roofing, plate, and sheet glass, granite, iron and steel bars, agricultural implements, building woodwork, ropes, fur, and machinery belting.

Under a separate head came many iron and steel products, which were made dutiable at 33⅓ per cent, for a period of three months only, after which they were to be replaced by a more "scientific" schedule.

The reason given for these additional duties was that they were levied on goods of a kind which were likely to be produced as cheaply in this country within a "reasonable" time.

This tariff, constituted by the Imports Duties Act and the additional duties, largely replaced the abnormal duties of four months earlier. It was to last for twelve months at least. As we all knew, there was no likelihood of its being either repealed or modified at the end of that probationary period. Many increases of duty, indeed, were authorized. *The value of the goods taxed under these Orders was over £100,000,000.*

LATER TARIFF ORDERS.—On April 28, 1932, Parliament surrendered to the Advisory Committee the right, withheld when the Import Duties Act was passed, of removing any article from the Free List. As the "Free Trader" remarked, "This concession installed the Tariff Committee as the taxing authority of this country. . . . Seventy-two Members recorded their votes against the handing over of food taxation from Parliament to the Three Wise Men, but the President of the Board of Trade (who had given his pledge against food taxes) was not included."

The idea that tariff-making was to be taken out of politics was speedily dispelled. The Advisory Committee was debarred from reviewing the silk duties, and, after

an aggressive log-rolling campaign, the Chancellor included new and higher silk duties in the Budget. These duties ranged from 45 to 100 per cent, the cheap, low-grade goods, welcomed by the poorest class of consumer, being the most heavily taxed.

From this point on, the Advisory Committee recommended new tariff Orders at frequent intervals. The second Order, passed on June 8th, extended the "temporary" additional duties to pig-iron, stampings and pressings, castings, ingots, and spring steel. The duty on pig-iron (which is a material of production) was higher than the duty on the finished, highly manufactured steel article! Such was the nature of the "scientific" tariff! Actually, despite the noise made about abnormal imports and dumping, our imports of pig-iron at this time were only one-twentieth of our home production, and this duty seemed to be a clear case of surrender to the interests.

MORE FOOD TAXES.—On July 28th a new Order under the Horticultural Duties Act imposed high taxes upon potatoes, to the delight of Protectionists, who had been feeling the handicap of Mr. Runciman's election pledge. A new list of horticultural duties was also drawn up by the Committee to take the place of the original list. This was duly approved by the Protectionist majority in Parliament. The Committee gave growers the additional information that they did not propose to recommend the removal or lowering of the duties for at least two years.

On August 26th were signed the Ottawa Trade Agreements, which I shall examine under a separate head. Many new duties, mostly on foodstuffs, were involved, including duties of 2s. per quarter on wheat, 15s. per cwt. on butter, 15 per cent on cheese, and 10 per cent on maize.

A month later came a new list of increased duties on

manufactured articles, including carpets, rugs, bolts, nuts, screws, rivets, lace, and embroidery. The upward tendency which had marked the operation of protective tariffs in every other country was now manifest here. "More and higher duties" was the everlasting cry of the interests.

AMOUNT OF GOODS TAXED.—*In all £570,000,000 worth of goods (or considerably more than half of our 1930 imports) were now liable to taxation under various heads (not counting the Ottawa duties, which had not yet come into operation), as follows:* Foodstuffs, £240,000,000 (compared with £75 millions in 1930); raw materials, £55,000,000 (none in 1930); manufactures, £275,000,000 (compared with £75 millions in 1930). Only one-eighth of our manufactured imports now entered duty free. The "National" Government had brought £444,000,000 worth of goods into the taxable class in little over seven months —a useful beginning to the protective system which its leaders had declared would not be introduced without an impartial inquiry.

REASONS FOR NEW DUTIES.—The Tariff Advisory Committee worked hard, and fresh Orders for new or increased duties followed one another in quick succession. If the duties were not justified for the purpose of protecting "infant" industries, they were justified for the purpose of protecting "old-established" industries. If they were not justified because industries were in danger of extinction and needed assistance, they were justified because industries were increasing their output and deserved encouragement. Thus, leather gloves got increased Protection because they were doing well and might be expected progressively to replace imports, and fabric gloves got increased Protection because they were doing badly and could not hope to replace imports.

The case of fabric gloves deserves a note to itself. When

the higher duty was granted to leather gloves, a similar duty was withheld from fabric gloves, for reasons which had been well known to some of us for many years past. The industry had enjoyed Protection (or Safeguarding) since the War, but in spite of this special favour the Advisory Committee were forced to the conclusion that no duty, however high, would enable it to satisfy home consumption. An increase was therefore not recommended. But time works wonders, and Tariff Order No. 8, issued a few months later, witnessed the abject surrender of the Advisory Committee to the persistent log-rolling of this small industry, which now received the increased duty its supporters had clamoured for—despite the Committee's earlier statement that adequate Protection "would be likely to lead to a considerable increase in price and a serious contraction of consumption, with adverse reactions on the yarn industry of Lancashire."

In taxing paints and colours, the Committee failed to discriminate between finished products and materials of production. The "scientific" tariff, apparently, had not yet been found possible. The scissors industry was particularly fortunate. It received substantial Protection in order that it might proceed peacefully with the development of mass production, and a guarantee was given that the Protection would last for at least five years.

The long-protected wrapping paper industry, still unable to meet foreign competition, was adjudged to be deserving of a further amount of Protection, and the duties on most classes of imports (the materials of other industries) were raised accordingly.

Increased duties on poultry and meat pastes and sausages were easily justified on the grounds that they were products of a luxury character; and increased duties were granted to the makers of screws, although the home production was in the hands of a monopoly. The proviso,

with which we have now become so familiar as to feel justifiably contemptuous, that "the interests of the home consumer were to be watched," reminded us that mere watching had not been sufficient to prevent users of dyestuffs—to mention one notorious case—from being badly stung.

TARIFF REDUCTIONS!—But not every new Tariff Order involved increased duties. It has to be placed on record that in November 1932, the duty of 6d. per lb. on lily of the valley roots was abolished, and a 10 per cent duty put in its place, while shortly afterwards manilla hemp and one or two other minor articles, the taxing of which had been almost universally condemned from the start, were placed on the Free List.

This, however, implied no movement, as some ingenious souls may have imagined, towards world free trade. On February 28, 1933, a few days after the Prime Minister had told the House of Commons that it was his Government's intention at the forthcoming World Economic Conference to work *for lower tariffs*, a new Treasury Order was issued increasing the tariffs on such goods as carpets, steel wire, nails, and netting. Further Orders were issued on April 27th and 28th, in the face of *strenuous Liberal and Labour opposition*, Sir *Archibald* Sinclair describing the tariff on rubber shoes and boots as "an exceptional measure of injustice to the trades concerned, and a real injury to an important section of consumers in this country." The industry had not asked for such a high duty; merchants, who had large stocks of goods on their hands, had never been allowed to state their case before the Committee; and the burden of the duty was going to fall most heavily upon the poorest and least well-clothed of the community. This prophecy was realized. In the first five months of 1934 we imported only 276,689 dozen pairs of rubber boots and shoes,

compared with 506,386 dozen pairs in the same period of 1933, but the average duty-free import price increased from 15s. to 20s. per dozen pairs.

On June 27, 1933, immediately following our signing of the Tariff Truce, the duties on hats and other head-gear, lace and allied materials, and doors were increased. And so the Committee proceeded, an occasional insignificant reduction appearing in the Orders as a sop to the inarticulate body of consumers, while the articulate bodies of producers had only to shout loud enough to get what they wanted. For a complete list of the new duties the reader must turn to the *Customs and Excise Tariff* (Price 6d.), published by H.M. Stationery Office. The following goods among others were subjected to increased duties soon after the breakdown of the World Economic Conference: Oil products and pearled barley; oats in grain; split peas; canned pilchards; plants in flower; bleached cotton linters; iron and steel forgings; chemicals; and fowls, ducks, and geese.

In January 1934, came the duty on oats, one of the worst imposed. The specific duty of 3s. per cwt. was equivalent to between 80 and 100 per cent. The duty was imposed mainly to pacify Canada, whose share in our oats market had fallen. It was in no way justified by increasing imports, since imports had actually declined from 8·7 million cwt. in 1931 to 5·6 millions in 1933. Only a small section of our agricultural community could expect to benefit from this duty, while the very large section of users were hit by the restriction of foreign supplies.

CHAPTER III

THE ADVISORY COMMITTEE

TARIFF COMMITTEES IN OTHER COUNTRIES. —The Tariff Advisory Committee was constituted under the Import Duties Act. Experience of Tariff Committees in other countries did not encourage us to believe that the British body would conform to the ideals expressed by Mr. Baldwin, or that it could prove to be "the safeguard against the use of political influence by business interests for their own end, leading to the prostitution of the tariff to log-rolling and vote-catching," which *The Times* so righteously demanded.

In the United States the Tariff Commission found that log-rolling could not be prevented—that the tariff could not be "taken out of politics." Mr. T. W. Page, chairman until 1925, has exposed the rottenness of the system in his striking book, *Making the Tariff in the United States*.

The *New Statesman* of December 12, 1931, published a notable article on the matter by Mr. O. G. Villard, the well-known American authority. Referring to Mr. Baldwin's belief in a "fool-proof" Tariff Committee and the possibility of constructing a "scientific" tariff, Mr. Villard wrote: "This language has, for years, been familiar to Americans, for here, too, we have been trying to take the tariff out of politics, to put it on a 'scientific' basis... with most interesting results." The American Tariff Commission was instituted, after much heralding, in 1922. In six years it succeeded in reducing duties in five cases out of 1700! Its impartial inquiry into the case of linseed oil occupied seventy months. In 1930, quite rightly, it gave up the ghost. The truth was, it did not have the ghost of a chance.

A new Tariff Commission was formed "to take the tariff out of politics." It did next to nothing. "At its present rate of progress," wrote Mr. Villard, "it will take the Commission about seventy years to overhaul the tariff and give us the knave-proof scientific tariff we are clamouring for." He went on to refer to the tariff corruption, duties being auctioned off to the highest bidders, who paid their bids into the Protectionist campaign chests. *The Manufacturers' Association of Pennsylvania, for instance, paid 700,000 dollars to Mr. Coolidge's campaign fund and, later, 547,000 dollars to Mr. Hoover's, and then complained that it had been hoodwinked.* G4

In this country we did not have to wait long to witness the formation of log-rolling bodies, but the amounts they have expended in securing the tariffs they wanted have not been made known. The bodies are very efficiently organized. They are supported by leading figures in British industry, and in Parliament they have teams of willing helpers—Members (to quote Lord Snowden when, in 1930, he warned the country of the consequences of adopting a tariff system) who go to the House of Commons "not to support national interests, but pledged to the support of the selfish interests of particular industries." I shall give some examples of this log-rolling further on. 3964

"When you put on tariffs," wrote Mr. Villard, "you put the Government into partnership in every business which profits therefrom. Every such business becomes a special privilege and at once joins with every other similarly favoured business in seeking additional pap. The more it is temporarily given a Governmental nursing bottle, the more it cries for it and insists that it cannot live without it. Organized protected business becomes at once the richest and the most easily reached group of organizations to snap the whip over politicians and fill

the party purses. It is not knavery to take money from tariff-favoured individuals so that you may save the nation from Bolshevism, or bankruptcy, or the competition of the miserable, sweat-shop workers of Europe. It is a grand rallying cry: 'Let all good patriots and nationalists save our protected industries and our factory labourers from destruction by the underpaid German, Frenchman, Czecho-Slovak, and Turk.'"

A similar experience marked the operation of Tariff Boards in other countries, notably in Canada and Australia.

OUR TARIFF COMMITTEE AT WORK.—It must be said for our Tariff Committee that they have tackled their task with true restrictionist fervour, whatever their previous convictions. But they have become the slaves of the Protection machinery which they were appointed to control. After the Finance Act of 1932 had given them authority to recommend licences for the entry duty-free of machinery not obtainable in this country the Committee had to meet a flood of applications from manufacturers who had been handicapped by the new duties. Yet—such is the influence of Protection—they invariably refused to recommend licences, and users continued to suffer.

The *Chemical Age* of November 5, 1933, gave some typical examples of the treatment they meted out to users of taxed machinery. A chemical engineering firm applied for a licence for a steam-heated still of a sort that was not made at home. Their application was refused, and they were advised to try a home-made still "of a similar type." The applicants, having made inquiries, reported that the British article was unsuitable for their purposes. The Committee were unmoved. The users then obtained a written assurance from the makers of the "similar" machine, to the effect that it was not suitable. The Com-

mittee, in a brief reply, stated that they did not see their way to alter their previous decision. And there the matter ended, with the users labouring under a heavy handicap.

Another manufacturer, having spent a large sum of money in improving his plant, mainly with British parts, found that one essential piece was not made in this country. Furthermore, he found, to his horror, that the Tariff Commissioners in their zeal had put a duty on it which amounted to £1,000. He applied to the Committee for a licence to import it duty-free. The Committee refused. "Those hard-headed gentlemen," declared the manufacturer, with excusable bitterness, "are immovable: they are not in the least concerned about speed and efficiency." Yet they were in the habit of reminding the steel makers of the great virtue of such qualities!

One manufacturer who had met with similar treatment wrote:

"We have been engaged in correspondence, consulting advisers, etc., since the beginning of August, thus wasting a lot of valuable time. The only answers we have had from the tariff bureaucracy have been stereotyped letters kept ready in their office, on which a few details, such as dates, are filled in. If this is intended to help British trade, or help to decrease unemployment, I fail to see how it is to achieve its object."

Here is an extract from a letter from another disillusioned user of taxed machinery:

"I am informed by the Tariff Committee that no licence would be entertained for the import of such machines unless they are previously approved by the Standard Development Department of the Board of Trade. As the B.O.T. require to see the machine in actual operation before giving their approval, and as their fee varies from £15 to £25 for the examination, it is evident that the prospects of business in this respect are severely limited."

Sometimes the Committee adopt other methods. In one case they suggested to a go-ahead manufacturer of

long experience that, rather than go ahead and try a proposed new method, he should stick to the old one. Here is his statement:

"The Committee say that it is only a matter of opinion whether this system is any improvement on the present method; and, moreover, it is not intended that facilities should be granted for mere improvements. Also they raise objection to the fact that this is only a part of a machine, and believe that, if a licence were granted, the Customs officials would not honour it, as it is not a complete machine."

Obstinacy seems to be the Committee's chief characteristic. "They appear to have a large reserve of technical objections," declared one disappointed applicant, "and they fall back from one to another of these to show why a licence should not be granted."

There have been many similar cases to those quoted. The comment of Mr. Richard D. Holt, head of the Blue Funnel Shipping Line, is an appropriate conclusion:

"The Tariff Board does not invite objections to the applications before it; there is no public hearing; and nobody is asked to state the view of those who hold that it is against the public interests that a tariff should be granted. *I am willing to believe that these Commissioners are knave-proof; but if they sit in secret and deal out Protection to one and not another, then the Committee remains knave-proof only through the innate rectitude of the Commissioners and the mercy of God.*"

CHAPTER IV

RETALIATION

FROM the first, Free Traders warned the public that the adoption of a restrictionist tariff policy would provoke retaliation abroad. We, of all nations, were the most dependent upon our export trade, upon our ability to sell in overseas markets goods which were acceptable to the foreigner in exchange for the huge supplies of goods, of all kinds, which our consumers demanded. We were still the world's greatest traders. We were still the world's greatest shippers and builders. We, of all nations, stood to gain least by an insular policy and to lose most by a policy which must further depress purchasing power in the world.

With the exception of agriculture, our greatest industries were exporting industries; and it was common knowledge long before the "National" Government was formed that these were the industries which were most depressed. Yet, as Free Traders pointed out, it was these very industries which, in the event of our adopting a tariff policy, stood to suffer most from retaliation. *The danger was obvious, and what has happened has shown that the persistent warnings of Free Traders were entirely justifiable. There has been widespread retaliation. World tariffs are higher and trade restrictions far more numerous than they were before we abandoned Free Trade.*

THE FRENCH SURTAX.—About the failure of "bargaining" I shall have something to say later on. Here I shall content myself with drawing the reader's attention to the retaliation which our policy provoked. France, with the courage of despair which has characterized most of her actions during the past year or two, was almost the first nation to retaliate. She imposed a 15 per cent surtax

on British goods, ostensibly to counteract our depreciated currency. (By this time we had gone off the Gold Standard.) This measure of retaliation created much indignation in Government circles, not least in the breast of Mr. Walter Runciman, President of the Board of Trade, who had but a short time before renounced his former beliefs on the subject of retaliation.

But France, *much maligned*, was not quite the first nation to hit back. The first was our Dominion of Canada, who used a so-called "dumping" (or exchange depreciation) duty to discriminate against imports from the United Kingdom; and her sisterly example was promptly followed by South Africa. Of the three, France's action was the most justifiable, because our 50 per cent Abnormal Imports Duties had severely hit her producers at a time when their sales in our market had already begun to decline.

Within two months of the imposition of our first duties, twenty nations had retaliated by increasing the restrictions against British goods. Germany, France, Belgium, Denmark, Poland, Switzerland, Austria, Czecho-Slovakia, Jugo-Slavia, Esthonia, Latvia, Turkey, and Greece were among them. Holland, hitherto virtually a Free Trade nation, showed what she thought of our surrender by raising all her duties against British goods by 25 per cent of their former low rate, as from January 1, 1932.

FOREIGN COAL QUOTAS.—In February Germany increased her duties on our cotton cloth and yarn to 40 per cent, and reduced her quota of British coal *three times in successive months*. In March Austria increased her duties by the equivalent of 25 per cent. Belgium increased her tariff on British woollens. France cut down her quota of British coal to 70 per cent of the 1930 level. Italy imposed a tax of 2½ paper lire on our coal. Poland instituted a 250 per cent increase in freight rates on Polish railways, to apply to all coal carried from

the seaports to the interior—a charge equal to £1 per ton on British coal entering the country. Little wonder that one of Lord Rothermere's Protectionist organs, noting an 85,000 increase in unemployment in the coal industry, impatiently called upon Mr. Runciman to retaliate! Yet this organ had not been backward in prophesying that when we adopted tariffs the foreigner would quickly come to heel!

In July Mr. William Straker, Secretary of the Northumberland Miners' Association, was moved to speak out vigorously against our policy, when he criticized the Government for nursing "the foolish belief that we could improve our trade by following the bad example of other countries." "No industry," he stated, "has felt the effect of these barriers sooner than the coal export trade."

MR. RUNCIMAN'S TARIFF WAR.—The tariff war with France must have special attention. Some time after France had placed the new 15 per cent surtax on our goods, it was removed in respect of some imports, and Mr. Runciman, calmly ignoring the fact that it had been imposed as a result of our policy, used the subsequent removal to justify our policy! "Does anyone imagine," he asked a surprised House of Commons on May 6th, "that the 15 per cent would have been taken off if we had been conducting our affairs under Free Trade?" (A short time before this, the *Economist* had been moved to take the President of the Board of Trade to task for his inconsistent attitude. "So thin and threadbare at every point is Mr. Runciman's defence that we are forced to the reluctant conclusion that he is swimming with gusto down the political tide. Far, indeed, has it borne him from the moorings of balanced judgment to which we had regarded him as firmly attached.")

MORE SURTAXES.—The French surtax on our coal was a direct reply to the restrictions which we had placed upon imports from France. It was removed early

in February 1932, for reasons best explained in a statement published in the *South Wales Journal of Commerce* of February 18th. The additional tax "was an extremely unpopular tax in the French seaboard markets (Bordeaux, Havre, etc.) where it accentuated the hardships of industrial and other consumers caused by the operation of the import quota system, and was there condemned as strongly by port and harbour authorities as it was by those classes of consumers whose activities depended almost entirely on the supplies of relatively cheap coals obtainable from the United Kingdom." However, the relief, both to our coal exporters and to the French users, was short-lived—as was Mr. Runciman's premature gratification. Successive cuts in imports were authorized until our quota was reduced to 50 per cent of the 1930 level.

Meanwhile, the surtax of 15 per cent, which had been removed from coal only to be replaced by more stringent quota restrictions, remained upon machinery, woollens and worsteds, cottons, motor vehicles, iron and steel products, and electrical apparatus. Mr. Runciman, in the Commons on May 24th had to admit the failure of his efforts to get it removed, and further determined efforts met with a blunt French refusal to consider modification.

On October 1, 1932, France further restricted our coal business by decreeing that all coal from the United Kingdom must be carried in French boats. Since about five million tons of British coal were shipped to France in British boats, this order affected one hundred and eighty boats and the employment of two thousand five hundred hands, including dock hands. When M. Vigne, the French delegate at the Miners' International Congress, was challenged on the question of France's repeated restrictions on imports of British coal, he replied that our policy which had driven many French industries to the verge of ruin had made such retaliation necessary; and

in January the coal quota was again cut to 42·93 per cent.

MR. RUNCIMAN'S HEAVY HAND.—Towards the end of 1933 and at the beginning of 1934 the "war" took a turn for the worse, and much ill-feeling was caused by Mr. Runciman's taking advantage of the French domestic crisis of February to threaten drastic action if the French retaliatory duties were not removed. The latest of these duties had replaced the surtax on about one-third of British imports. Mr. Runciman's callous attitude stirred Dr. John A. Hutton, the eminent preacher and editor of the *British Weekly*, to write to the *News-Chronicle* in the following terms:

> "Ours is like the action of a debtor who presents his bill to a house in mourning—an outrage which the legislature of the Book of Deuteronomy implicitly forbade.
>
> "If there is one line of behaviour which is incumbent upon us all in these days when institutions and laws are on their trial, it is that we should preserve our manners!
>
> "France will, we trust, emerge from her immediate difficulties. It would be a troublesome thing for us to remember that, it seemed to her, we took an advantage of her."

France, stung by this hectoring treatment, resisted. The trade treaty with Great Britain was denounced, and the "talks" that opened in March 1934 were hardly of the friendliest, and proved to be a prelude to further restrictions.

THE ANGLO-FRENCH AGREEMENT.—The temporary Agreement of June 27th, welcome as it was, afforded little consolation to those who, in 1931, had imagined that our new tariffs would secure a lowering of the French duties against our goods. By the Agreement, the French undertook to maintain the existing percentage of British coal imports. *But, as I have shown, the percentage was now very much lower than it was in* 1931, *before we launched our bargaining tariff.* France also restored our import quotas to the level which had existed before the "war" began. In return, we agreed to modify

our duties on silk and artificial silk—in accordance with a recommendation made some weeks earlier by the Advisory Committee, who reported that the duties were proving burdensome to the home users—and we removed the 20 per cent surtax imposed upon French goods in February as a retaliatory measure. Thus, we had adopted tariffs to bargain with, and we had evoked a disastrous trade war. After two and a half years of bargaining and bluffing and shrinking trade, we had been very pleased to sign an Agreement which restored the *status quo*, except that our coal export trade was now worse off than it was before we started.

EFFECTS OF RETALIATION.—Little publicity has been given to the retaliatory effects of our adoption of tariffs. Here are one or two further illustrations.

The first carries the authority of Sir Kenneth Lee, chairman of Messrs. Tootal Broadhurst Lee Co., Ltd., who, at the annual meeting of the firm on August 9, 1932, said:

"We were told that our tariff would help us to bargain. Let me give you an instance of how this so-called bargaining power may fail. When visiting Belgium recently, I found the duties on certain of our goods had been almost doubled. I asked why, and was told that when we put on our tariff they increased theirs so as to have something to bargain with. . . . All such cries as 'Buy British' and 'Buy Empire' restrict the free flow of goods. The more successful and well-advertised these cries are, the more other nations take them up in order to retaliate. . . . The cotton industry is particularly affected by all these obstacles. A tariff cannot help us. . . . A tariff can only harm us. . . . Let us hope that before the home industries have grown accustomed to the shelter of a tariff and become dependent upon it, the whole system may be swept away."

In a letter received from a City merchant occurred the following remarks:

"I spoke to one of the largest Huddersfield heavy worsted manufacturers the other day, who told me that their important trade to Germany was entirely killed by our imposition of tariffs.

I spoke to a very big London clothing manufacturer who used to export largely to Holland. His export trade has stopped since Holland put a quota on the import after the United Kingdom had shut out Dutch goods."

LOST COAL ORDERS.—And here is another case concerning Holland which is of particular interest, illustrating as it does how retaliation may display itself indirectly. I quote from the Dutch newspaper, *Nieuwe Rotterdamsche Courant*, of August 5, 1932:

"As is known, the British Government has increased the tariff on raw iron. Through this the Hoogovenbedrijf Works suffer, as these works exported raw iron to England. How a country suffers through imposing such high tariffs is shown.

"The Hoogovenbedrijf Works used much English coal, on an average three to four shiploads a month. There have been times when they received five shiploads. The records show that *in June they received only two shiploads of English coal, and* by July not one single load!

"One knows how much the English coal export trade has declined. If one considers further the fact that the iron to England was shipped exclusively on British ships, and that the shipment of coal was effected by British ships, one can see how English industry and shipping suffer."

Following our restrictions on Scandinavian goods, Scandinavian users transferred much of their custom from British coal to Polish coal. One Norwegian industrialist who was in this country trying to negotiate with Mr. Runciman explained that, having been compelled by our increased duties on his wrapping paper to effect economies, he had just placed an order for 40,000 tons of Polish coal, which normally he would have placed in this country. This single order was equivalent to work for eight thousand three hundred British miners for a week. On May 1st, to make matters worse, Poland placed an embargo on British coal entering her ports, and on July 11th Bavaria announced a general cut in her imports of 20 per cent and in British imports of 40 per cent.

CHAPTER V

BARGAINING

THE Free Trade argument against tariffs as a bargaining factor was, and is, that as soon as you start trying to bargain you find yourself up against vested interests which prevent you from making the concession to the foreigner which is necessary if you are to obtain a concession from him. You can only bargain by removing certain duties. But the removal of these duties deprives certain industries of the Protection you have given them. Whenever there is a danger of this the protected interests are up in arms, and their representatives log-roll to such effect that the proposal is generally shelved.

Thus, when a Protectionist member suggested that we should bargain for the removal of certain French duties in return for the removal of certain of our duties on French luxury goods, Mr. Remer, the Protectionist Member for Macclesfield—and for silk!—jumped up and asked: "May I have an assurance that under no circumstances will the silk duties be used as a bargaining weapon?"

Again, when it was proposed that our duty on German hosiery should be lowered in return for German concessions to our coal exports, Mr. Caporn, the Protectionist Member for West Nottingham—and for hosiery!—wrote to the Board of Trade demanding an assurance that the hosiery duties would not be used as a bargaining weapon.

It soon became apparent that the Protectionists were not at all anxious to use the tariff for bargaining purposes, though many of them had made great play with the argument in 1931. What some of them wanted to do, apparently, was to "hit the foreigner" as hard as possible—

particularly the foreigner who happened to be engaged in the same type of industry as they were. Indeed, Lord Nuffield (better known as Sir William Morris), President of the League of Industry—a body whose object seems to be the effective Protection of all members—gave voice to this feeling when he declared that "the foreigners are squealing already; they are squealing very hard, and I hope in the near future they will be squealing a lot more!" Is this the way to increase international amity?

Yet this bargaining argument was one of the most powerful advanced up to and at the time of the General Election of 1931. Certainly it was this argument above all others—indeed, one may say, this argument alone—that prevailed with many who were suspicious of tariffs, and with quite a number of genuine Free Traders, most of whom must have been sadly disillusioned by the complete inefficacy of our tariff as a bargaining weapon.

When, on February 6, 1934, in the House of Commons, Mr. Runciman was asked to state whether foreign tariff changes since October 1931 had made for a lowering or a raising of trade restrictions against British goods throughout the world, he made the following reply:

> "Import restrictions affecting United Kingdom goods have been introduced or varied in the following countries during the period in question: Austria, Belgium, Denmark, Esthonia, France, Greece, Hungary, Latvia, Netherlands, Persia, Poland, Rumania, Spain, Switzerland, and Turkey. *The changes for the most part have involved decreases in imports rather than increases.*"

IMPERIAL BARGAINING.—I have mentioned how the vested interests make attempts to negotiate practically impossible. One of the chief vested interests is the Empire. When our new tariff had been in force for some time, and there had been no move on the part of our Government to use it to negotiate for reductions in foreign tariffs, questions began to be asked. To these

the answer was always the same: "We must wait for Ottawa." We could not give the foreigner preferential treatment, it was said, until we had first conferred with our Dominions and given them the first chance. So bargaining was postponed.

I shall deal with the Ottawa Agreements generally a little later on. Here I am concerned with them only in relation to our declared bargaining policy. Our delegates went to Ottawa with the avowed object of securing a general lowering of tariff barriers. Mr. J. H. Thomas, Secretary of State for the Dominions, made no bones about the matter. The Agreements would be drawn up on a *quid pro quo* basis; and, he added, the Conference "*must* be a success."

That the Conference was doomed to failure seemed evident from the not unnatural determination of the protected interests in the Dominions to give nothing away. Australian delegates assured the manufacturers beforehand that they need have no fear: their interests were in safe keeping. The *Montreal Star* voiced the general view when it pointed out that England need not expect Canadian manufacturers to sacrifice their Protection in order that production in which they engaged should in future be reserved to English industry. Again, one recalled the "Canada First!" slogan of the Canadian Minister at the Imperial Conference of 1930, which so moved Mr. Thomas that he used the unparliamentary expression "humbug." Yet Mr. Thomas, judging from his public utterances, was not unhopeful that Ottawa would produce happy results. "We must not turn it into a tariff poker party," he wrote in the *News-Letter* before sailing. "We must rather try to give a lead to the world to break down tariff barriers. We are going to Ottawa in no truckstering spirit."

Alas for his hopes! The truckstering spirit was very

soon the pervading spirit of the Conference. And what else could be expected at what was nothing more nor less than a bargaining party? "The Empire," the Prince of Wales had said on the eve of the deliberations, "cannot solve the world's problems, but it can perhaps give a lead in the right direction. These (trade) restrictions may well appear necessary to a country anxious for its balance of trade or the stability of its currency, but when its neighbours follow suit the good results are lost and only the evil remains. . . . The political difficulties of the world the Empire cannot cure, but on the economic side cannot some message of hope go out to a world trade that seems to be dying in the grip of almost universal restrictions? This is the major issue that lies before the Ottawa Conference. I do not think I exaggerate when I say that the eyes not only of the whole Empire, but of the world, will be turned to Ottawa next month."

FAILURE OF OTTAWA.—Poor world! No message of hope went out from Ottawa. Even for a bargaining party it was unnecessarily mercenary. Here is the *Economist* comment of August 27, 1932:

"Where the real failure of Ottawa lies is in the total absence of any vindication of the truth that economic progress is to be sought in the general lowering of tariff barriers. Nowhere in the Agreements—and our judgment is confirmed by Mr. Bennett's loudly Protectionist exultation—do we detect any evidence that the Dominions have modified in essentials their adherence to the policy of high protective tariffs. Where 'general' tariffs are to be altered, they are actually to be raised.

"This said, there is little to be added. When silence falls on the nauseating symphony of Imperial wind-instruments braying 'triumphal success,' the Ottawa Agreements stand as the limited achievement in £ s. d. bargains realizable by Great Britain in negotiation with an Empire resolutely determined to protect its own manufacturing industries. They involve, on the one hand, the likelihood of some damage both to our own interests as a food and raw-material importing country and to those of our

important foreign customers whose goods, to some extent, are to be excluded from this market."

And here is the summing up of Mr. J. E. Emlyn-Jones, chairman of Messrs. Emlyn-Jones, Griffin & Co., Ltd., and ex-President of the Cardiff Chamber of Commerce:

"The amount of bickering that went on at Ottawa, the clamouring for favours on behalf of certain industries, the threats of Mr. Bennett, all force one to the conclusion that the surest way to disintegrate the British Empire is to have a few more Conferences of the kind that has just ended. Just as some children long after they have reached an age of discretion and been given an excellent start in life continue to bleed their parents, with disastrous results to all in the end, so Canada and Australia and the other Dominions, given an excellent start by the Mother Country, still consider she must be the milch cow.

"'Willing to take but afraid to give' appears to have been the motto of the Dominion delegates, for a very careful study of the terms of the agreements will reveal that no concession is given to Britain comparable to that leap in the dark which the Mother Country has taken in deciding to tax by duties or quotas—for both have the same effect in the end—her imports of wheat and meat.

"Ottawa, like Versailles, will be for years a jarring noise in the delicate mechanism of international trade, but the folly of the former will dawn upon the people more readily than the latter. The Treaty of Versailles was negotiated in an atmosphere of artificial prosperity. Ottawa comes as a deadly blow in a period of unprecedented adversity."

We could not use our tariff to bargain with foreign countries before Ottawa. And at Ottawa we made a very bad bargain. "What have we got out of it?" said Mr. Baldwin in the House of Commons Debate on his return, "I answer quite frankly. I do not know." There are more trade restrictions in the world as a result of Ottawa than there were before. In Canada alone the trade which was covered by tariff reductions—and there were a few—was little more than one-third of the trade covered by tariff

increases. Worst of all, our power of co-operation with other nations, with a view to diminishing restrictions generally, was seriously weakened. Our delegates went to the World Economic Conference with their hands tied.

In Australia the results were even less satisfactory. On October 13th, on his return to Australia, Mr. Gullett, the Minister of Trade and Finance, explained what the Agreement meant in the House of Representatives:

> "This Agreement does not reduce the protective level of our Australian tariff. It does not call upon the Australian Government to reduce that level. On the contrary, although it does not reduce the protective level against British imports, it very generally increases the protective level against foreign imports. It may be said that that is done in the interests of the British industrialist; in reality it is done in the interests of the Australian primary producer. But in any case the Australian manufacturer has his protective level raised over hundreds of duties against the foreign manufacturer, whose competition is more to be feared than that of Britain, because of lower foreign costs."

Mr. Bennett likewise assured the Canadian Parliament that tariffs had not been reduced.

Where bargaining had failed in the comparatively congenial atmosphere of an Imperial Conference, it was hardly likely that it would succeed in negotiations with the foreigner. And so it proved.

THE FOREIGN TRADE PACTS.—The negotiations were entrusted to the President of the Board of Trade, Mr. Walter Runciman, who a short time before had declared: "There remain many thousands of miles of tariffs in Europe. We will not get rid of that disagreeable fact by increasing our tariff here. We will only make things worse!"

For many months the negotiations dragged wearily on. Members who asked questions about them in the

House of Commons were told to possess their souls in patience. Great progress was being made, but it would be unwise to reveal the particulars at that stage. On April 12, 1933, Mr. Runciman announced that at last three agreements had been completed which would be a complete justification of the Government's policy. Free Traders were mystified. Was it possible? Had tariffs made for a lowering of tariffs for the first time? They were quickly reassured that their past opposition to tariffs for bargaining purposes had been fully justified. Mr. Runciman's Trade Pacts were their justification. Mr. Isaac Foot, M.P., speaking in Parliament on May 1st, pictured an imaginary conversation between Mr. Runciman and Sir John Simon at the conclusion of the negotiations, in which Sir John congratulates his colleague with these words: "Walter, you always said that this policy would fail, *and now you've proved it.*"

THE GERMAN AGREEMENT (signed on April 13, 1933).—Our tariff was to be used for bargaining, for producing a reduction in tariffs against our goods in foreign markets. Our tariff against German goods, for instance—and German goods were very seriously affected by our new Orders—was designed to strike fear into the hearts of our war-time enemies until they squealed (the louder the better, said Lord Nuffield), and came to us on bended knee with offers of reduced restrictions against British goods. Unfortunately, things did not work out according to the Protectionist book. Germany promptly hit back with increased restrictions against our coal. Thus, when Mr. Runciman went into negotiation with Germany, he found himself compelled to bargain, not for a reduction in Germany's former tariff, but for a relaxation of the restrictions she had imposed *after* we had adopted our bargaining tariff!

Such, however, is the mentality of Protectionism, and

struck to the satisfaction of both parties. But it was observed that there was nothing to prevent our lowering the total foreign quota and still maintaining this 62 per cent. We could lower it to half-a-hundredweight, and still be on the right side. The only fixed import figure concerned butter, of which we agreed to take not less than 2,300,000 cwt. a year. The Agreement did practically nothing to reduce tariffs and other obstacles restricting trade between the two countries. It merely perpetuated the new, vicious quota system, or, as the restrictionists were now beginning to call it, the system of "quantitative regulation." When Sir Herbert Samuel asked whether this was so, the official reply was, "Yes, so long as the circumstances which have brought about quantitative restriction remain."

THE ARGENTINE AGREEMENT (signed on May 1, 1933).—There followed the shallow agreement with the Argentine which did not come into force until November 7th. No tariffs were reduced as a result of the negotiations. Our coal, which had been on the Argentine Free List before we adopted our bargaining tariff, was, it was agreed, to remain on the Free List. What a triumph for bargaining! Argentine duties had been raised against certain of our goods. The Agreement provided for the restoration of the former level—the level that existed before we adopted our bargaining tariff —*if fiscal considerations permitted.* The only satisfaction —and it was not very concrete—to be derived from the Agreement was the promise that our creditors should have preferential treatment in the payment of Argentine debts—*provided payment was found possible.* We agreed to place no further restrictions on imports of Argentine chilled beef—"*unless such restriction is rendered necessary*!" Hedged about as it was with reservations, the Agreement was a poor result of long and industrious negotiations.

Lord Essendon, shipowner, referred to the Agreement on October 18th in these terms:

"In the Argentine trade we have been adversely affected by the restrictions which were imposed upon shipments of refrigerated produce, partly in consequence of the Ottawa agreements and partly in consequence of the desire of the Government to assist our home agricultural industry. I am unable to say with any authority whether the benefits which have been derived from these restrictions are commensurate with the disadvantages which have resulted in our trade relations with Argentina, as well as to the shipping companies engaged in the Argentine trade, and to consumers here who are expected to pay the higher prices which our home agriculturists hope to obtain for their products."

OTHER FOREIGN AGREEMENTS.—The Norwegian and Swedish Agreements, signed on May 15, 1933, were equally uninspired. The system of quantitative restriction was again perpetuated. Both countries agreed to take fixed proportions of their coal imports from us—70 per cent in the case of Norway, 47 per cent in the case of Sweden. It was estimated that this would involve an increase in our exports of 1,580,000 tons. This sounded good, until we discovered that the year 1931 had been chosen for the comparison. Actually our 1932 exports were 1,000,000 tons higher (without any effort to negotiate) than in 1931.

We agreed not to restrict Norwegian or Swedish goods—unless our Marketing Schemes made restriction necessary. A number of other goods, such as news-print, wood pulp, pit-props, and iron ore were to remain on the free list, and the duty on kraft paper was to be reduced to 16⅔ per cent. Both countries guaranteed free entry for a number of British goods (which had enjoyed free entry before), and both countries agreed not to increase existing duties on a number of other goods.

By the Agreement signed on May 19, 1933, Iceland

promised to take 77 per cent of her coal from us in return for concessions to her fishing trade, while Finland agreed in September to take 75 per cent of her coal from us in return for concessions to butter and timber. These Agreements, like the others, were so hedged about with qualifications that they did not merit the acclamation of the upholders of tariff bargaining.

It should be noted that the tariff concessions, such as they were, automatically extended to other nations under the most-favoured-nation clause. This might be regarded as a good thing, but in practice it is not, because such an extension, desirable in itself, destroys the favour which the reduction was designed to bestow on one country and encourages the country making the reduction to take full advantage of the reservations to evade the terms of the Agreement.

Tariffs generally were not lowered by these trade pacts, and any benefit that might have come from the safeguards against further increases was more than nullified by the general acceptance of the quota system of restriction. In practice the percentages of our coal exports to the countries concerned have not held, and in one case, when there was an effort to stir up a ramp against Finland, it was revealed that we had failed to supply the kind of coal Finland wanted and was prepared to buy.

Worst of all, the adoption of these Agreements, and particularly of the quota system, placed Great Britain in a weak position for giving a lead, or even worthy support, towards an all-round reduction of trade restrictions at the forthcoming World Conference—a fear that events fully justified.

THE RUSSIAN SETTLEMENT.—This Agreement, announced by Mr. Runciman in the House of Commons on March 1, 1934, was not one of the tariff pacts. It simply brought about a resumption of trade relations

with the Soviet such as had been desired by a majority of all parties for some time past. It was not a result of any tariff bargaining.

The Agreement was a temporary one, pending a formal treaty. It was based on the "most-favoured-nation" clause, and, apparently in accordance with Soviet wishes, on the acceptance of the balance of payments theory between the two countries. By 1938, it was anticipated, the exchanges between the two countries would approximately balance. Russian goods were not to be taxed to protect home industries, but it was necessary to stipulate that action could be taken if their importation prevented us from granting to the Dominions the preferences agreed upon at Ottawa.

While Free Traders might take exception to the application of the "balance of payments" theory to trade between two countries alone, the fact that this theory had been made the basis of Mr. Runciman's tariff pacts made it almost essential that it should govern any subsequent agreements, such as this one. The Agreement was welcome, but it could not be acclaimed as a result of our adoption of tariffs.

THE WORLD CONFERENCE.—When, in June 1933, the Preparatory Committee for the World Economic Conference issued their annotated Agenda, they declared emphatically that "it will not, in our judgment, be possible to make substantial progress by piecemeal measures. A policy of nibbling will not solve the crisis."

On June 20th, at Edinburgh, Viscount Cecil, referring to the utterances of Mr. Runciman and Mr. Chamberlain, said:

"I do hope and trust that those who will speak the decisive word at the Conference will not allow it to drift into futility and impotence because they are not prepared to deal with problems in the true spirit of international statesmanship. Be assured

that if you go into an international conference to solve international troubles you will never do it if you adopt an exclusively national point of view. You have got to recognize that your business is not to advance the narrow, special, and often quite illusory interests of your own country; your business is to work for a common end which will be of advantage to the whole world. It is no use people coming to the conference and saying: 'We desire to get rid of all international barriers to trade, and among them we desire to lower tariffs,' if they go on to say that it only applies to *excessive* tariffs. The tariffs prevailing in the country for which the speaker stands are, of course, never excessive! That is a hopeless view."

This warning, unfortunately, had no effect on the British delegates. While many Free Traders had been chary about condemning the foreign trade agreements (on the grounds that although they did not like bilateral pacts, *any* effort at tariff reduction deserved encouragement), they were unanimous in condemning the Government for advancing the unsound method of bilateral negotiation at the World Conference. The bilateral principle is contrary to all modern needs of international exchange. It accepts the fallacious doctrine that the trade between any two countries should balance. Mr. Chamberlain himself, in an enlightened moment, criticized this conception of trade. Sad to record, it was Mr. Runciman who insisted that this principle was the right one to adopt. The Danish Agreement accepted it as its starting-point. One could hardly blame the *Daily Herald* for describing the incorruptible Mr. Runciman as a specimen of "corrupted Liberalism!"

Yet the earlier protestations of the Government spokesmen might have encouraged—perhaps did encourage—high hopes that even now the tariff might prove effective as a bargaining weapon. "It is intended to use the tariff for the purpose of bargaining," declared Colonel Colville, "and the Government will certainly do its best to secure

a general lowering of tariffs throughout the world." Then why not at the World Conference? Why did we instead go all out, not for a general lowering of tariffs, but for a piecemeal, nibbling policy such as the Experts' Committee had condemned? There were fifty-seven nations at the Conference. Were they all to attempt to make agreements with one another? Two thousand nine hundred and forty-nine agreements! It would take a long time. Up to that stage, after many weary months of negotiation, we had concluded six agreements, which had scarcely lowered tariffs at all.

METHODS OF TARIFF REDUCTION.—The Economic Committee of the League of Nations advanced two methods, and two only, for securing tariff reduction: The system of all-round reduction by percentages, and the system of reduction to a uniform level. The best line of attack, it was suggested, would be to combine both. Our Government advocated neither. Nor did we give our support to the American resolution, which seemed to hold out some hope that, now that a lead had been given, the nations would face up to the situation. The American resolution ran:

"Whereas various nations have been constrained on the one hand to impose restrictions upon imports in the nature of tariffs, quotas, embargoes, etc., and on the other hand to subsidize exports; and

Whereas this tendency has resulted in nationalistic action in all nations, which, if carried to its logical conclusion, will result in the almost complete elimination of international trade and a return to a mediaeval isolationism; and

Whereas it is agreed that this tendency must be arrested if a world recovery is to be achieved and a decent standard of living widely maintained; now, therefore, be it Resolved that all the nations participating in this Conference agree:—

(a) That it is against the common interest for any nation to adopt or continue a policy of extreme economic nation-

alism and to raise additional trade barriers and discriminations;

(*b*) That embargoes, import quotas, and various other arbitrary restrictions should be removed completely as quickly as possible; and

(*c*) That tariff barriers should be reduced as quickly as possible by reciprocal bilateral agreements or by multilateral agreements to a point where trade can once more move in a free and normal manner; and

(*d*) That care should be taken in making bilateral or multilateral agreements not to introduce discriminatory features which, while providing an advantage to the contracting parties, would react disadvantageously upon world trade as a whole."

Our failure to support the American lead spelt its failure. Is it to be wondered at that the United States lost interest in the Conference, held an opposition party of their own, and then proceeded with their own business?

The "spoof" perpetrated by an unknown joker, who contrived to mix up with the official papers the following statement, was a brilliant satirical commentary on the futility of the Conference, for which our Government cannot escape a considerable share of the blame:

"London. Conf. Bunk, B/Fs/66.
April 1*st*, 1933.

LEAGUE OF NATIONS

Monetary and Economic Conference

The Ruritarian Delegation, acting in accordance with the spirit of the Economic and Monetary Conference, and with the desire to put forward a Resolution embodying the full activities of the Conference, and likely to be unanimously accepted, submits the following:—

(*a*) Whereas it has been frequently emphasized that 30,000,000 unemployed men and women exist in Europe and the United States and are in need of the essential commodities of life; and

(b) Whereas it is generally agreed that large stocks of essential commodities are in existence throughout the world; and
(c) Whereas it is agreed that international trade between nations is gradually dwindling; and
(d) Whereas it has been asserted that tariff barriers are restricting the flow of world trade and increasing unemployment; and
(e) Whereas a sane currency policy is essential to improve world conditions;

Now therefore

Be it resolved that all nations participating in the Monetary and Economic Conference agree,

(1) To restrict supplies of all essential commodities, especially wheat, sugar, teas, coffee, milk, butter, cotton, livestock, meat.
(2) To destroy all surplus stocks which might be used by starving nations and unemployed persons, or, where stocks remain, to increase the price thereof.
(3) To increase existing tariffs where complete embargoes are not practical.
(4) To defer all action on currency problems.
(5) To urge that Governments initiate no public works likely to assist the unemployed.

Further, be it agreed that the unanimous decisions on vine-growing, on phytopathological and veterinary questions, and on the spread of cocoa-plant diseases, indicate such a noteworthy advance towards international agreement as to justify the resummoning of the Monetary and Economic Conference on April 1, 1935, to discuss further matters of like importance.

Amendment by the International Union of Hotel Proprietors: 'For April 1, 1935, substitute April 1, 1934.' "

THE TARIFF TRUCE.—The inglorious failure of the World Conference naturally brought about the ignominious collapse of the Tariff Truce, which had been signed in London on May 12th. Holland, one of the few sincere workers for freer trade, denounced the Truce when its futility became apparent. The Dutch Government had striven hard, by direct negotiation with

other countries (our own included) and by giving unqualified support to the Truce, to put a brake upon the movement towards more Protection. Disillusioned, it now legislated for an all-round increase in tariffs against foreign goods, including ours.

We for our part had skilfully avoided keeping to the spirit of the Truce—and there must be many who think that we did not keep to the letter of the agreement. We had gone ahead with the imposition of new tariffs, on the grounds that such tariffs had been under contemplation before the agreement was signed; and otherwise we made quotas do the work of tariffs. Mr. Runciman and Mr. Elliot between them ensured the failure of the Truce to effect an end which would have been frankly distasteful to many of the Government's most influential supporters.

CHAPTER VI

ANOMALIES AND INTERFERENCE

OUR tariff was not to be like other tariffs: it was to be a "scientific" tariff. How often we received this assurance! The truth is, our authorities have profited little from the unhappy experience of other countries, for very soon after our adoption of Protection a host of anomalies displayed themselves; and so difficult is it to rectify even the most elementary blunders under a tariff system that many of them still remain, while others have come into existence.

As Free Traders had anticipated, many goods which were the materials of our using industries were subjected to import duties, and no provision was made for rebates when the finished goods were re-exported. In effect, we were taxing our own exports. Great pressure was brought to bear upon the authorities (who had a strong supporter in Mr. Chamberlain, anxious to lose no revenue through the granting of rebates), and eventually—many months after—it was decided to give rebates in certain, but by no means all cases.

REBATES.—Among those who supported the agitation for rebates were a number of strong Protectionists, who had always assured the public that import duties did not make goods dearer. But why, if the duties did not make the goods dearer, did these gentlemen cry out so plaintively for rebates? Unfortunately, whether rebates are granted or not, import duties place a handicap upon the using trades, and upon their agents, the merchants. Mr. Runciman put it very well in what must have been one of his last Free Trade speeches:

"If you interfere with the merchants," he said, "you make the entrepot trade difficult. If you clog up the Customs and compel merchants to employ unnecessary staffs, if you make the form-filling industry one of the primary trades of the country, you will impede the entrepot trade and hamper what has been one of the main sources of our national wealth. . . . The merchants have added forty million pounds' worth of invisible exports to our balance of trade—forty millions a year with which to pay for some of the foodstuffs and raw materials we have to buy from abroad for the preservation of our population and trade."

The danger of a tariff system to our merchant class, quite apart from the question of rebates, has never been fully realized by most people. Shortly after our tariffs came into operation their effects began to be felt, and the *Investor* took the opportunity of reminding its readers that the British merchants had to share the losses with the foreign manufacturer.

PORT DUES.—The new duties operated in another unfortunate manner, which stirred the Manchester Chamber of Commerce (which had taken panic and forsaken Free Trade a short time before) to protest strongly that Manchester and Liverpool were now placed at a disadvantage compared with London, Hull, and other ports. The explanation was that the duties applied, not only to the value of the goods imported, but to the port charges as well. Every port collects dues from the merchants, and these dues vary from port to port. In London they are lower than in Liverpool or Manchester, therefore Liverpool and Manchester had to pay a higher duty. Manchester merchants had not only to pay duty upon the value of the goods and upon the port dues, but also upon the canal toll. The total duties payable on these extra charges did not, of course, amount to much, but they involved delay that was often expensive and sometimes ruinous.

CUSTOMS DELAY.—Many perishable goods were

held up at the docks, with disastrous results. One Leith merchant revealed how he had lost a regular commission through failure to deliver a consignment of perishable goods owing to Customs interference. A London merchant gave several examples of the dislocation sustained to his business under the new tariff system. It is, apparently, the practice of the Customs people, when they are unable to estimate the precise amount of duty payable on certain goods, to demand a substantial deposit. In March 1932, certain articles, required at short notice by a British manufacturer, were imported. The Customs, unable to estimate the amount of the duty, asked for a deposit of 50 per cent. Subsequently it was found that the duty was only 10 per cent, but the merchant failed entirely to get a refund of his deposit. It had gone to swell the Customs receipts to which Protectionists pointed with great satisfaction when they were announced, with the assurance that "the foreigner pays the duty!"

Here is another case where the action of the Customs penalized a merchant. A firm which imports large quantities of materials used in the electrical, radio, motor-car, and engineering trades sometimes finds that, say, one thousand pieces out of a consignment of twenty thousand are faulty and have to be sent back to be replaced. Special permission has to be obtained from the Customs, if duty is not to be charged again on their return. The Customs take so long to grant permission that the firm whose experience I am quoting has found that it cannot wait. It has to pay duty a second time, but as this is unprofitable the trade has suffered, and users are being compelled to pay higher prices for less suitable materials produced at home.

A PAPER ANOMALY.—Mr. Sydney Lamert, chairman of Messrs. De la Rue & Co., in August 1933, revealed the Gilbertian situation which had arisen out of the paper tax:

"If you bring in raw paper," he said, "you pay a duty of $17\frac{1}{2}$ per cent, but if you proceed to paste and enamel it in Germany and do a good deal of work on it, you only pay a 10 per cent duty. If you go further and make it into playing cards, you can bring it in duty-free. The raw material is heavily taxed, the partly finished goods a little less taxed, and the finished product not taxed at all!"

In September of the same year there was a ridiculous case concerning imported buttons. Our trimmers, apparently, have from time to time to import special buttons for finishing purposes which they cannot procure in this country. If the finished article is for export, a rebate of the duty paid on the buttons is allowed. Or so the users are led to believe! In practice the rebate is withheld on the grounds that the buttons have been tampered with during their short stay in this country. What has happened is that the foreign makers of the buttons have commissioned a British firm of printers to stamp the make on them. Thus the British users of the buttons have to pay a tax on them because they have been stamped in a British printing house; if the foreign makers were to deprive the British printers of the work and give it to foreign printers before exporting the buttons, all would be well. The users would then be assured of getting the rebate!

TARIFF ON TIMBER.—If readers who have not gone very deeply into this subject are surprised that such folly should exist, they should understand at once that it is ingrained in the tariff system. I got particulars of the working of the tariff on timber which will be every bit as surprising to the layman, though not to the student of the system. Timber for use in our coal-pits was placed on the Free List to prevent any additional burden falling on the hard-pressed coal mining industry. Now, although it has long been the practice to import pit timber up to

20 feet long to be cut into pit-props, the Customs people, in their wisdom, ruled that timber of that length did not constitute pit-props and therefore could not be imported duty-free. The tax mainly affected Norwegian timber. If the timber was cut up into pit-props by Norwegian workers, it entered free. So long as this little job was reserved for British labour, the timber was taxed!

The woodworker has suffered in other directions from the anomalous operation of the tariff. True, he receives Protection against the foreigner for his finished product, but he has to pay duty on his raw material and on the tools he uses, and he has found to his dismay that there is a considerable balance of disadvantage. In effect the foreign woodworker receives a bonus in competition with him, because the foreigner, although his finished article is taxed, can still get his materials and tools duty-free.

TAXING BRITISH.—There was also the absurd case of the British camera which had to pay duty. It was taken out to Mombasa in connection with the construction of a bridge. Its job done, back it came—only to find itself labelled "foreign"! If the camera had been *Canadian* or *Australian* or *South African* instead of *British*, it would have entered duty-free.

The National Shoe Stores revealed another case of official zeal being carried to extremes under the influence of tariffs. These Stores, who specialize in model shoes much in demand in this country, ordered a supply of goods from Italy. They were dispatched, and on arrival at the Port of London the agent paid the necessary duty on them. It was then discovered that the wrong shoes had been sent, yet when they were returned the Customs refused to refund the duty, which had to be paid a second time when the right shoes arrived. The stores, therefore, had to pay duty on shoes which they never ordered, did not want, and in fact did not buy!

TAXING SCIENCE.—Even the claims of science are disregarded. The Secretary of the Association of Scientific Workers, in a letter to the Press on March 20, 1933, drew attention to the fact that scientific apparatus was taxed even when it was not procurable in this country. "The result of this policy on research and educational work is sometimes disastrous," he wrote. As the writer pointed out, the money that accrued to the Exchequer from this stupid tax was sometimes money which the Exchequer had previously paid out to the University laboratories and similar institutions in order to assist in research work of national importance!

TAXING HEALTH.—The Secretary of the Association of Wholesale Druggists and Manufacturers of Medicinal Preparations was another who had occasion to write to the Press about the anomalies which were coming to light. In *The Times* of December 31, 1932, he referred to "the chaos, hardship, and loss of employment caused by the Customs regulations," and went on to explain that "the delay occasioned owing to the necessity for correspondence and interviews leads to loss of business, and makes one wonder whether the country is really benefiting from the imposition of these duties." One example he gave concerned a Customs ruling which compelled a manufacturer to stop one of his special processes. The question was raised with the Customs, but three weeks passed and nothing was decided. In another case, in order to avoid similar delay, the users decided to pay a duty which had been levied by mistake. As the writer said, "any business house treating its customers in this fashion would not be long in coming to grief." He added that one firm had lost part of its Christmas business, and had had to cut down its staff as the result of a Customs blunder.

900 PER CENT!—The Oldham *Evening Chronicle*,

on March 20, 1933, dealt with one of the Tariff Advisory Committee's brightest efforts in this fashion:

"Queer are the ways of the Tariff Advisory Committee (which some business men have called the Stop-Trade or Derisory Committee). One of their latest decisions is to impose a tariff of 4s. 6d. per square yard on Chinese or Japanese matting on the ground that it contains hemp. Some of these mats are two yards long by one wide, and the trade price is 1s. This means that, their measurement being two square yards, the tax is 9s., or 900 per cent. That may be high enough to delight the Page-Croft tariffists, but the housewife who formerly got a mat for an odd corner at the price of eighteenpence will now be faced with the prospect of having to pay half a guinea."

Ultimately, in Tariff Order No. 9, this duty was charged on an *ad valorem* basis.

The task of smoothing out many of these anomalies has proved rather beyond the authorities. Mr. F. M. Selson, of the Selson Machine Tool Company, Ltd., gave us some first-hand information about the methods of the Advisory Committee.

"As regards the applications for exemption now under consideration," he wrote, "so far as can be seen the Committee are working on these applications in the narrowest way possible. It seems that they are doing everything possible to refuse all applications. It is quite an exception for any firm to have an application granted."

LOST BUSINESS.—I could go on giving examples of anomalies. Here is a final one. When a user of "card-clothing" (which is the curious name of a felt belting backed by cotton and interspersed with steel teeth, used for combing wool) approached the Customs to discover whether the article was dutiable, he was informed that it was not, but that the materials it was made of were dutiable if they entered separately. The effect was that the British maker of "card-clothing," who imported

certain of the materials and who had been able under Free Trade to compete with his foreign rival, now found his manufacturing costs increased and orders impossible to secure. The foreigner was able to step in and take his business.

Mr. Edward H. Symonds, President of the British Fabrics Bureau, spoke out strongly against this and similar anomalies. "The trade of Lancashire and the textile industry generally," he said, "was being impeded by the action of the Customs. Of course, he did not blame the Customs. They were merely carrying out instructions. The blame rests with the Board of Trade."

UNCERTAINTY THE CURSE.—It will be realized that the interference and delay so often involved may be as heavy a handicap as the actual tax. Mr. C. E. Denny, chairman of Messrs. Denny, Mott & Dickson, Ltd., was moved to speak out strongly on June 14, 1933, when he said:

> "Uncertainty is the greatest curse that can affect business. You will see how grotesquely trade has been entangled in the many strands of political expediency, and how multitudinous are the tentacles of the political octopus that impede its course."

How the tariff system lends itself to, and indeed encourages, commercial dishonesty is illustrated by the following true story which came to me at first-hand. My informant wrote:

> "We have made great efforts to have a lot of the semi-manufactured materials we formerly imported made in this country, but after several months of effort the results we have obtained are negligible. Recently a manufacturer said he would order some enamelled rings from us provided they were British-made. We got to work. We searched the country and found a firm who said they could make the rings, and they promised delivery in three weeks. After five weeks we wrote to the firm. Came the reply stating that unfortunately the delay in delivery was due to the fact that the rings *had not so far arrived from Switzerland!*"

CHAPTER VII

PRICES

NOTHING affects public opinion on this question of Protection so much as prices. Unemployment can generally be attributed to external causes, but prices are so closely linked up with the discussion about tariffs that whatever they do under a system of tariffs is generally accepted as proving or disproving the former arguments of the controversialists. What has happened to prices since we adopted Protection?

I shall deal more fully presently with the effects of import duties in this direction. At the moment it is enough to say that while there are many cases where prices have been enhanced, the general level of prices has scarcely risen. "Prices haven't risen," is the remark that is most often thrown up by Protectionists or neutral-minded persons when the question of our new tariffs crops up. What has the Free Trader to say to this? Does it not conflict with all his past theories? Did he not say that prices would rise if we adopted Protection? Has not our experience of tariffs proved that he was wrong?

The Free Trader, if he is an instructed Free Trader, will reply quite frankly that he has never said that prices would rise *regardless of other factors*, and he will add that nothing that has happened is inconsistent with the conditions laid down by the most eminent economists and upheld by all responsible Free Traders at the time of the Election of 1931. Prices, generally speaking, have not risen. The reasons why they have not risen are all anticipated and freely acknowledged in Free Trade theory.

World costs of raw materials have in most cases continued to fall; and in the case of most of the raw and semi-

raw materials which have been taxed, the fall in the world cost has been much greater than the amount of the tax.

Home costs were reduced, although only temporarily, by the reductions in wages which took place after the last Election. Low wages do not always, or even generally, make for low production costs in the long run, but wage reductions undoubtedly militate towards this result in the first reckoning.

A considerable proportion of the classes of goods which have been made subject to the duties come from Empire countries, and enter duty-free, or under a preference.

In the case of foodstuffs, which bulk so prominently in the price list, only a comparatively small range of goods have been directly taxed (much to the indignation of the farmers, who feel that if anyone gets Protection in this country *they* should get it); and here untaxed Empire supplies have been abundant in most cases. But as we shall see, the effect of the quota control has been to drive many food prices up.

A large part of the dutiable goods are of a kind which we had largely in stock. Attempts were made in some cases to profiteer, as I shall show later, but most of the goods were obtainable at pre-tariff prices—a factor which compelled the protected interests either to cut their prices temporarily or to concentrate on foreign markets where at that time sales were assisted by the exchange depreciation. Now that the pre-tariff stocks have run down, prices have in many cases stopped falling in accordance with the fall in costs.

WAGE REDUCTIONS AND PURCHASING POWER.—Two other causes have contributed to the maintenance of low prices. One—the primary cause of the fall in world commodity prices—is the depressed level of purchasing power in almost all countries, which is ultimately aggravated by wage reductions.

The other—hailed as a triumph for Protectionist theory —is that in many cases the foreigner has "paid" the duty by reducing his price to British importers. This does not conflict with Free Trade theory: the prevailing conditions are the *exceptional* conditions specified by Sidgwick and other acknowledged economists—conditions in which either the foreign supplier had a monopoly (albeit a temporary monopoly) in the class of goods taxed, or where stocks were so large that the foreign supplier had to sell at reduced profit or even at a loss if he was not to have the goods left on his hands. Some of the goods disposed of in this way were, indeed, bankrupt stock, as were some of the British protected goods which were sold in the home market. The conditions were exceptional, and they were purely temporary. True, the face value of prices might continue to fall even when the exceptional conditions had passed; but since this would in all likelihood be met with reduced wages and incomes to a great extent, the cost of living would be enhanced, not reduced. In terms of purchasing power, things would be dearer.

I would ask readers to note one other consideration. "Things are cheap" just now, because, very often, they are *low-quality products*. The British manufacturer has built up a great reputation for high-class goods. His factories were equipped for the production of high-class goods. It was the habit of buyers who had dealings with British firms to demand high-class goods, and for the most part British industry thrived on the policy. Cheap foreign goods were very often not competitive. The British manufacturer would gladly have stuck to this policy. Whether he would have been wise to do so I am not prepared to say. The fact remains that in many cases he has departed from his traditional policy and begun producing the lower-quality goods, designed *for the shrinking pockets of the public.* Thus we find a large

selection of British goods of every kind now on sale at lower prices than we have been accustomed to paying, simply because they are goods of a lower quality. In carpets, furniture, clothes, and many other articles in popular use, this tendency is to be noted.

COST OF PRODUCTION.—The question of cost of production is closely linked up with the general question of prices. Free Traders have always laid great emphasis on cost of production, because, they have argued, the maintenance of our export trade under the Gold Standard depended on our ability to produce cheaply, and particularly upon our ability to procure our raw and semi-raw materials cheaply. Tariffs, it was held, would tend to make the imported materials dearer and increase our domestic cost of production. Nothing has happened to suggest that Free Traders were wrong.

What has happened is this. The continued fall in world prices of raw materials has more than counterbalanced any increase caused by the import duties and our departure from the Gold Standard. That is a straightforward fact. There is nothing mysterious about it. And in a greater or less degree all the factors which I have specified in my general review of prices apply to the cost of production and explain why it has not generally risen.

But enough evidence has been thrown up to make it quite clear that where these external factors were not operating to the full extent the cost of production *has* been raised by the import duties, and that where the external factors could be measured the duties prevented producers from enjoying the fall in costs which the fall in world prices should have ensured. I shall give examples of this tendency which will leave no doubt in the minds of readers that tariffs have made our relative production costs higher than they would have been under Free Trade, to the detriment of users.

Some of those increases have concerned imported dutiable goods, some home protected goods. There is the evidence of users who have been handicapped. There is the evidence of merchants who have had to refuse overseas orders.

"THE FOREIGNER PAYS."—A word about the claim that the foreigner pays the duty. A number of Protectionists have had no hesitation in coupling this claim with their wider claim that the duties have been a boon to protected industries. Now, it should be clearly recognized that when the foreigner indeed pays a duty that is meant to be protective the object of the duty is completely defeated, since if the foreigner undervalues his goods in order to counteract the effect of the duty, then the "protected" industries are not receiving the protection which the duty is designed to give.

Despite the factors weighing heavily against a rise in price, there has been no lack of evidence to prove that, generally speaking, our new tariffs have made goods relatively dearer to the consumer and user. I propose, with as little comment as possible, to give readers a number of concrete instances.

COPPER.—The price of imported copper rose after the duty was imposed, and home producers of copper sheets lost no time in raising the price of the finished article. A short time after this, it happened that certain Indian buyers came into the market with an order for copper sheets. Formerly the British price was the same as the Continental price, but as a result of the British increase in price the Continental producers got the order, which was worth £200,000.

LEAD AND ZINC.—*Protectionists are in the habit of assuring the public that so long as there are Empire supplies we need not be afraid of tariffs on foreign goods on the ground that prices will rise. The cases of lead and*

zinc must have tended to disillusion the people to whom such assurances were acceptable, for even before the 10 per cent duty had come into operation, the Empire producers raised their price by 8 per cent.

TIMBER.—Timber was the subject of a similar piece of Imperial profiteering. The very day after the duty of 10 per cent was imposed upon foreign timber, the price of Canadian timber, which, of course, was not taxed, rose 9½ per cent. Later, when the embargo was placed upon Russian timber, the price of neutral supplies rose by from 10 to 15 per cent. "Importers have had to pay more," the *Midland Bank Review* reported in June 1933, "and they have passed it on when selling the goods." Quite like Free Trade theory!

Supporting evidence was forthcoming from Lord Stanley of Alderley, who told us that in May 1932 he was prepared to sell a supply of timber. He refused an offer of £3,500, but in September the same timber realized £10,000. "The reason," he said, "was that by the Ottawa Agreement the entry of timber into this country had been curtailed. Anyone of you who may wish to build a house is going to have to pay more for his timber."

FURNISHINGS.—"From one source," wrote a dealer, "I have before me a demand for 10 per cent and from another a demand for 15 per cent on Italian carpets. The idea that the foreigner pays is sheer stupidity. The seller takes care to cover the duty, and if we want the carpets we have to pay for them. This goes on right through the furnishing business. Most of our materials come from other countries. I have another letter here in which an advance of 33⅓ per cent is being asked for wire; and horsehair and other stuffing for suites are moving the same way."

PAPER.—There are many examples showing how the

new duties raised the cost of paper. Here is a typical one contained in a letter from a Scottish firm to a customer: "We are obliged for your kind order for 3 reams 'RS' M.G. Sulphite 20 × 25 as supplied in February 1931. Unfortunately, owing to the tariff, we are unable to supply this paper at the old price (6s. 4d.). Our best price is now 8s. 4d. per ream."

Messrs. James Murray & Sons, Ltd., of Deptford, about the same time published the fact that on account of the new tariff they had to pay 25 per cent more for *home-produced* paper bags.

A well-known firm of paper manufacturers sent the following circular to its customers: "In view of the tariff now imposed on all wrapping and bag papers, we have to advise you that our prices are increased by 33 per cent as from this date."

A large paper user wrote as follows: "We buy a good-quality paper, and £16 7s. 6d. has been our price per ton for good English brown kraft. Immediately the duty was imposed, the price of this paper, *though home-produced*, was quoted at £24 11s. 3d."

"The cost of our raw materials has gone up, and many of the other articles we purchase," said Lord Camrose, chairman, at the annual meeting of Messrs. Edward Lloyd, Ltd., on May 8, 1934.

STEEL.—In September 1931, before the new tariff system was inaugurated, steel bolt bars from the Continent were priced at £4 4s. od. per ton delivered at the works in England. Soon after the 10 per cent duty was levied upon it, the price was quoted at £5 7s. 9d.

IRON AND STEEL TUBES.—Here is a letter received from a prominent London firm:

"Our business is in iron and steel tubes. Many of our customers are complaining bitterly of the effects of the tariffs imposed on iron and steel. They point out that where their

finished product is designed for export the increased price of tube, which to them is raw material, puts them out of the running'"

CHEMICAL MATERIALS.—Sir R. A. Cooper, chairman of Messrs. Cooper, McDougall & Robertson, Ltd., chemical manufacturers and shippers, addressing the annual meeting of the firm on March 16, 1932, said: "I find it difficult to understand how a heavy tax on imported raw materials can assist. The tax is a serious blow to the export trade of this country. On one raw material which our Empire does not supply, we have to pay an import duty equal to 17 per cent. A careful estimate has been made of the actual cost to this company. The cost is equivalent to an additional income-tax on our profits of 2s. in the pound."

NAILS.—How that versatile Protectionist, Mr. Herbert G. Williams, M.P., was nailed down to an unpleasantly hard fact was related after the North Cornwall by-election. He was addressing a meeting at Gunnislake on the virtues of Protection, and he challenged any member of the audience to name any article whose price had been raised by tariffs. A man at once gave him the example of nails. Mr. Williams suggested that he was an inventor, because he did not happen to carry the bill in his pocket. Fortunately, another member of the audience, a user of nails, was able to inform the speaker that the wholesale price of nails of the kind he used had risen from 8s. 6d. to 12s. 6d. per cwt.

TIN BOXES.—Soon after the duties were introduced Messrs. Morgan James, manufacturing chemists, of Fitzhamon Works, Cardiff, had occasion to write to the Press as follows:

"Our experience of the effect of tariffs is shown by two quotations for tin boxes, one lot bought in January, the other this week: (*a*) 3s. 9d. per gross. (*b*) 5s. per gross for the same

article. The quotations are both from the same firm of Welsh tin box manufacturers."

HOUSEHOLD GOODS.—Apart from furnishings, many household articles have become dearer under the influence of the tariff. As an example, here is a letter received from an Edinburgh ironmongery store by a customer: "With regard to your kind inquiry, we have applied to the importers for the present price of Crystolac tumblers and find that the price is about 22½ per cent more than when we last bought them before the import duties were put on. Trusting this is the information you desire."

WOOLLEN MACHINERY.—A firm of Scottish woollen manufacturers use a special type of knitting machine made in Switzerland. These machines cost £720 before the imposition of the duty of 10 per cent. The users purchased a new machine soon after the tariff had come into operation. The price was £792. This firm alone buys several of these machines in a year. According to a director, the increased cost was being passed on to the consumer of woollen goods.

DYESTUFFS.—The dyestuffs ramp has been exposed, and even Conservatives have been made to feel uneasy about the demands of the industry for prolonged high Protection. The cotton industry has felt the burden of the duty on dyestuffs. The prices of both British and Continental dyestuffs rose to the users, and the Lancashire mills found it necessary to increase their processing charges.

PAINTS AND COLOURS.—There is a 20 per cent duty on paints and colours, covering all the raw materials used by our manufacturers of printing ink and enamels. The price of the materials was increased by the duty, and many of them are not procurable in this country. *As the users enjoy a mere 10 per cent Protection for their*

finished article, the foreigner who has an untaxed supply of materials has, in effect, been given an advantage over our own manufacturers.

FERTILIZERS.—The price of fertilizers rose after the duty had been placed upon foreign supplies. Many, if not all, farmers felt the burden of this tax on their raw materials, especially the high duty on nitrate of soda, the principal fertilizer, the increased use of which would be in the national interest. Dear fertilizers mean dear vegetables.

OIL.—A Liverpool merchant, writing in the Liverpool *Daily Post* on April 2, 1932, called attention to the tax on oil—a raw material of industry if ever there was one. This merchant was in the habit of importing large quantities, and he had to pay a duty of 10 per cent on £70 worth of oil soon after tariffs were introduced. He had also to pay duty on the freight, which was £24. (This was a tax on British shipping). And finally he had to pay a duty on the port charges. (This was a tax on Liverpool). The absurd thing was that if the oil had come in a *foreign* ship instead of a British one he would not have had to pay duty on the freight! Strange are the ways of our Protectionist administrators!

BENZOLE.—On March 8, 1934, Mr. Davidson Pratt, general manager of the Association of British Chemical Manufacturers, stated that the hydro-carbon oil import duty had raised the price of benzole by 8d. per gallon.

DENTAL REQUISITES.—Many of our dental requisites are manufactured in the United States, including some of the most important instruments used by British dentists. These were heavily taxed under the new orders, and the price of some of the specialities rose by as much as 100 per cent.

MEDICINE.—One would have thought that in the interests of national health such things as dentists'

materials and doctors' medicines would be welcomed instead of taxed on entering the country. But no! There is a serum, discovered by a doctor at Harvard University, which is specially suitable for child sufferers from pneumonia. This serum was subjected to a 30 per cent duty under the new orders, while a 20 per cent duty was charged on its glass container. Needless to say, the price at once rose.

VEGETABLES.—The price of many vegetables rose to the consumer. Potatoes, cauliflowers, carrots, lettuce, and onions were all affected by the new duties. A salesman made the following statement in April, a few weeks after the duty came into operation: "The wholesale price of carrots imported from the Continent has jumped up from 6s. per bag to 15s. *In sympathy, English carrots are now being quoted at 16s. instead of 6s. as formerly.*"

One repercussion caused by this tax on vegetables was reported by a Glasgow merchant firm:

> "The recent imposition of a duty of 7s. per cwt. on foreign carrots has had the most amazing results. The market price of carrots was 14s. per cwt. With the duty the price was 21s., but the importers did not buy at this price, with the result that carrots became scarce and went up to 28s. As people cannot make broth without carrots, they stopped making broth, so that the other ingredients in broth have slumped to zero. On the other hand, housewives and restaurants are using, in place of vegetables, tinned and packed soups, which are enjoying a boom; and, as everybody knows, a large proportion of these come from abroad."

FRUIT.—The tax on imported fruit placed a further burden on the consumer. Cherries, plums, strawberries, grapes, and apples all became markedly dearer in the shops. A short time after the duty was imposed, indeed, grapes had doubled in price. Our merchants found that they could not meet their requirements with home supplies, nor did Empire supplies make up the huge defi-

ciency. Where extra supplies of Australian and New Zealand apples were ordered, for instance, they were often found to be bad and unsaleable. "Enormous fortunes have been lost by English firms in Australian apples alone," a big fruit merchant announced, and added, "I wonder whether people realize that tariffs in the fruit trade are throwing thousands of people out of work."

For the benefit of those who like to have all such statements as I have made backed by hard facts, here are some of the increases in fruit and vegetable price which were noted following the operation of the new duties:

CHERRIES, from 44s. 9d. in 1931 under Free Trade to 73s. 9d. in 1932 under Protection, per cwt.
GOOSEBERRIES, from 25s. to 32s. 3d. per cwt.
BLACK CURRANTS, from 4½d. per lb. to 7½d.
RED CURRANTS, from 3½d. per lb. to 4½d.
RASPBERRIES, from 5½d. per lb. to 7½d.
GRAPES, from 1s. per lb. to 2s.
RAISINS, from 6d. per lb. to 8d.

FEEDING-STUFFS.—The following is the text of a letter sent out by a firm of seed-crushers to its customers shortly before the tariff was imposed:

> "Dear Sir,—In view of the 10 per cent tariff which comes into operation on March 1st, it would be advisable to take delivery of the above before the end of the month, otherwise the cost will be increased by this duty in accordance with terms of contract."

How the tariff affected prices of feeding-stuffs was made manifest two months later by Mr. George Dickinson, chairman of the Furness and District Farmers' Association. In a letter published in the Press on May 6, 1932, he revealed that certain feeding-stuffs for animals —pigs and poultry in particular—had increased in price by 50 per cent. Ninety per cent of British farmers, he added, suffered from this tax.

On May 30th in support of this, Mr. A. W. Kelly, a West country pig farmer, wrote:

"I would like to give an instance of how farmers are being hindered instead of helped by the Government. I have gone in extensively for breeding and feeding bacon pigs. Since this Government came into office, they have imposed an import duty on feeding-stuffs, the pig-feeder's raw material. During April I paid £37 7s. in import duties on feeding-stuffs, equivalent to £450 a year, or enough to pay the wages of six agricultural workers."

Among the feeding-stuffs which were noticed to rise in price as a result of the duties were Egyptian cake, American linseed cake, treacle, locust beans, and pollards.

WHEAT.—I shall deal more fully with the effect of the Government's policy of restriction when I come to discuss Agriculture and Quotas. At this point it is worth noting that the import duty on wheat was borne by the consumer. The *Economist* of May 4, 1933, published the following particulars. When the tax first became operative the market expressed the opinion that the foreign supplier would pay half the duty, and prices were marked up accordingly, not by the full amount of the duty, but by half the amount. In February, however, the price rose nine-tenths of the full amount of the duty, thus showing that the market judgment that the foreigner would pay was unjustified, and by the beginning of March the price displayed the whole rise of 5d. per cental (or 2s. per quarter), the amount of the tax.

the same way, if the new factory, whether British or foreign, is the result of some stimulus dependent on an artificial restriction of normal supplies, its benefits may be, and generally are, outweighed by disadvantages in other directions. How many people allow for these disadvantages in estimating the value to the community of our new tariff factories?

ARTIFICIAL SILK.—We have had experience in recent years, even before we entered upon the new tariff regime, of new factories which cost us dear in the long run—notably in the gramophone and artificial silk trades. It was perhaps inevitable that a new, rapidly expanding industry like artificial silk would attract adventurers, but the tariff, by restricting healthy competition from outside, and especially by creating a false sense of security in the public mind, presented opportunities which the adventurers and incompetents greedily snapped up. Many new factories were built, mainly by British companies. It is interesting to recall what Mr. Samuel Courtauld said about their activities shortly after the full effect of their enterprise had been experienced. He made the following comment at the annual meeting of his company:

> "We have experienced periods of excessive production before, but this is the first occasion on which we have seen large weights of yarn offered at prices well below any true cost. The explanation can only be that a number of new producers have been so short of cash that they have incontinently thrown their production—good, bad, and indifferent—upon the market at any price which it would fetch. We may leave them to find some way of retracing their footsteps—if they can!"

(At this point, we read, there was laughter from the shareholders!)

> "These things need not have happened if newcomers had not started so lightheartedly, without sufficient resources either in capital or experience. They should not have been in such a

hurry to see something coming into the exchequer, and in the long run their prospects would have been distinctly more pleasing than they are."

The majority of these new factories have since closed down. The bulk of the capital subscribed by a gullible and misguided public has been lost. A few years ago, for instance, we were invited to look at a new artificial silk factory at Wigton (Cumberland) as an example of what a tariff could do. The factory was valued at £50,000. It was equipped with £300,000 worth of plant. It was estimated that it could produce twenty tons of artificial silk a week. But it never started producing! It was later sold by auction for £19,750. Other factories, whose promoters did not have to admit defeat so quickly, succeeded in producing at an excellent rate—but they finished by having to burn their stuff!

The tariff, by restricting healthy competition, aided and abetted the promoters of these ill-conceived ventures, which were the means of losing hundreds of thousands of pounds of British capital. But it is not necessary for a new factory to lose money to be a liability to the community. It may make handsome profits for its backers, and yet be a liability. Many of the new factories which were opened here in 1932 and after must be included in this class.

ATTRACTING COMPETITION.—Why were these new factories established here at all? If it was due to the new tariffs, as is claimed, then they were established because we have, by means of tariffs, restricted our normal supplies of the goods which these factories now make or assemble. That is the avowed purpose of the tariffs—to shut out foreign supplies and cause the required goods to be made here instead. But—to take the case of the new foreign factories—is it, indeed, a benefit *to have foreigners come here to make (or assemble) the*

goods which we used to get readily enough by sea? Assuming that the goods are of a kind that compete with our own goods, is it an advantage to our own hard-pressed manufacturers to have their most dangerous foreign rivals come and establish competing factories in the next street or next town? British manufacturers who find themselves thus challenged do not think so.

Mr. Arthur Balfour, Chairman of the British Council of the Australian Association of British Manufacturers, writing to *The Times* on April 26, 1932, stressed this point. Protectionists, he suggested, were too prone to applaud the installation of foreign factories under tariffs "without regard to whether it will merely create additional competition with industries already established in Great Britain or lead to further employment." He continued: "The establishment of additional factories in cases where the productive capacity of the existing industry is more than sufficient to supply the available market can only damage interests already established, cause further writing off of capital, and make the situation worse than at present." He went on to quote from the Report of the Australian Tariff Board, issued in June 1931, in which the following occurs:

> "The tendency for prohibitive duty rates is to encourage too much factory capacity and is illustrated in the hosiery industry. . . . An Australian manufacturer stated that the knitters had too much protection, which had caused great economic loss, as quite 50 per cent more knitting machinery had been imported into Australia than could ever be used."

OVERHEAD EXPENSES.—There is another point which is seldom noticed. We were assured that Protection would enable the domestic manufacturers to increase their production, cut down their overhead expenses, and lower their costs. But the establishment of these new factories for the purpose of making the kind of goods

which were formerly made more cheaply abroad and sent by sea, defeats this end. Costs of production, it is agreed, are lowered when overhead charges are cut down, and this can be achieved by decreasing the number of units of production. But the establishment of new factories does not do this; on the contrary, it increases the number of units of production.

LOWER WAGES ABROAD.—Again, we used to be told that the reason why our manufacturers could not compete with the foreign manufacturers was that wages here were higher than they were abroad. Yet we have these same foreign manufacturers coming here and managing to hold their former market while employing the higher-paid labour which our own manufacturers employ! The presence of so many foreign factories may, indeed, be regarded as a reproach to our own manufacturers, whose complaint is that public demand for the goods they make has shrunk. We used to be told that if only they were given Protection they would capture the market which the foreigner held. They have apparently failed to do so. Here was a demand waiting to be satisfied. Our manufacturers have to a great extent left it to foreign enterprise to satisfy it.

MORE EMPLOYMENT?—But let us come to the Protectionists' main justification of the establishment of these new foreign factories—that they employ British labour. The British worker makes the goods which were formerly made by the foreign worker. Good and well: we have seen how a new factory is a boon to the district in which it is set up. But that is not the whole story. Is there not perhaps a loss in some other direction? The foreign worker who formerly made the goods is now out of a job. His wages, which were paid out of the sale of goods to Britain, have stopped. Foreign purchasing power *for British goods and services has diminished accordingly.*

Since we have stopped importing goods from the foreign country, the demand for our goods and services to pay for them has shrunk. Somewhere British trades have lost foreign custom. Business in these trades has been damaged. The staffs have had to be reduced. That is the other side of the picture. When this happens, it may be due simply to the diminished purchasing power abroad, or it may be due to increased restrictions against British goods abroad as a result of our tariff policy. There has been a lot of retaliation since 1931, as I have shown.

If it be said that this reasoning cannot be correct because exports have not fallen so much as imports, I would point out, first, that our departure from the Gold Standard ensured that, for a time at least, our imports would fall to a greater extent than our exports; and, second, that a large part of our 1932 exports (the London Chamber of Commerce estimates it at £73 millions) were "mainly unpaid for." That is to say, if this sum due to us had been paid, it would have been reflected on the import side of our account, and the decline in imports would not have been so great. If it has not yet been paid (and we have no assurance that it has), these exports were unprofitable.

The employment which a new tariff factory gives is merely a displacement of employment. One district benefits at the expense of another. I have so far assumed that all the labour employed in these new tariff factories is British. No doubt most of it is, but not all of it; and we must bear this in mind in balancing the profit and loss to the community. Again, the machinery used is not all or even mainly British. In certain industries it is predominantly foreign. A correspondent who spent some months inspecting the new tariff factories has given us some illuminating information in the columns of a noted Conservative newspaper. For example, one of his bul-

letins tells us that "German, French, and Belgian factory manufacturers have believed in the superiority of the German, French, or Belgian machines, which they have brought over." Again, "In Stockport, as in Hyde, German workers and German machinery have created a centre from which new skill, new ideas, and new prosperity are spreading into British industry."

On December 14th last this correspondent sent the following message to the paper:

> "The bulk of these new factories have been taken by foreign firms. They can now describe their articles as British-made. Some of them fly the Union Jack."

And on January 6th we were told:

> "A factory making elastic web is, in fact, a German factory transferred to Leicester, machinery and men. I found young *men who knew hardly a word of English, and had to make my* inquiries through an interpreter."

PROTECTIONIST PROPAGANDA.—One is tempted to wax sarcastic at this evidence of the great work done by the new tariff factories in providing labour for British hands. The case of the Mitcham factory is enlightening. It was stated that a big Dutch firm had bought a site extending for one hundred and seventy-five acres at Mitcham. £50,000 was to be spent, and employment given to hundreds of British workers. Inquiries were made, and it was found that no site of even half that size existed at or near Mitcham. Eventually the site was traced. It measured 1¼ acres—and it was still for sale, the Dutch firm having changed its mind!

It is extraordinary how some people change their point of view. Under Free Trade many regarded it as a shocking business that we should permit imported machinery instead of giving employment to our own men making it; but now, under tariffs, this foreign machinery is

welcomed. The correspondent from whose messages I have quoted, referring to this "feature" of the new foreign factories, remarked: "It will be a stimulus to British machine manufacturers to have in England machines produced by the finest and most modern workers on the Continent." Yet before it was something in the nature of a crime!

FREE TRADE FACTORIES.—These new foreign factories do not satisfy a new demand. They merely satisfy a demand which previously our imported supply conveniently met, and would have continued to meet but for the tariff. The foreign factories which were established here under Free Trade, on the other hand, did satisfy a definite demand, otherwise they would never have been established. There is a touch of humour in the recollection that in the old days tariff reformers used often to use as an argument against Free Trade the belief that it encouraged foreigners to come here and trespass on home preserves!

DISPLACEMENT OF LABOUR.—The new tariff factories do not make for increased home production, demanding additional British labour. They divert production and labour from other British industries. That certain members of the Government are not blind to these effects was revealed in an answer given in the House of Commons on December 7, 1932, when Sir Alfred Knox, Conservative Member for Wycombe, complained that thirty of his constituents would be deprived of a job as a consequence of the Government action in refusing permits to certain German workers in a factory which it had been proposed to start in his area. Dr. Burgin, Parliamentary Secretary to the Board of Trade, declared in reply that there was no object in giving work to thirty more hands in Slough, if it meant that thirty workers in St. Helens would lose their employment. Yet that

is what most of our new tariff factories do. They create an artificial demand for labour in one district by destroying a natural demand for labour in another district.

MR. BALDWIN'S WARNING.—Even more significant was Mr. Baldwin's warning—directed to Mr. Runciman *of all people!*—at Llandudno on April 15, 1932.

"What has been said in some quarters about foreign factories *has been greatly exaggerated*," he declared, "We do want to get into this country industries that are entirely new or technically more perfect than our own"—as was the case under Free Trade—"but we do *not* want to encourage industries to come if they are merely parts of industries in which we are underemployed now or in which we are perfectly efficient and need no more help."

I have given most of the reasons why Free Traders have always discounted the "new factory" argument for tariffs, and why many Protectionists have now been driven to renounce it. By the summer of 1933 the influence of the tariff in attracting the foreigner to settle in this country in direct competition with our "protected" industries was causing a great deal of anxiety to those politicians who in the past had boosted up tariffs on precisely this score, and June 14th witnessed the strange sight of Mr. Mitcheson, Protectionist M.P. for St. Pancras, introducing a Bill in the House of Commons designed to limit the number of foreign factories in Great Britain!

A Board of Trade statement early in 1934 provided those who were still in doubt with ample food for thought. It revealed that in 1933, although 29,500 hands had been employed in 463 new factories, both foreign and British, under tariffs, as many as 409 factories had closed down in the same period. What the statement omitted was the number of hands displaced in these closed-down factories. We can safely assume that the number reached *embarrassing proportions*.

CHAPTER IX

CONFLICT OF INTERESTS

THE conflict of interests which Free Traders foresaw and feared has been engendered in no uncertain manner. If anything, it has been more marked than Free Traders anticipated, and the longer the tariff system remains, judging by the experience of other countries, the more intense will it become.

It is a human tendency to confuse one's personal interests with the interests of one's company or industry, and the interests of one's company or industry with the national interests. So it is perhaps not extraordinary that almost every manufacturer and farmer who has foreign competition to face is convinced that it is in the national interest that his production should be protected. It is a natural corollary that such people are incapable of seeing "the other man's" point of view and fail entirely to appreciate the objections of the user and consumer whose interests demand an untaxed supply. Yet these same manufacturers have been astonishingly quick to grasp the situation and recognize that tariffs have harmful reactions when, as sometimes happens, their materials of production as well as their foreign rival's goods are made dutiable. It is in the national interest, apparently, to tax another man's requirements, but it is in the nature of a crime if one's own requirements are taxed.

EXAMPLE OF WIRE.—The experience of the wire industry illustrates this tendency. In my review of prices I quoted the evidence of a user who had been handicapped by the increase in the price of wire. But the wire-makers consider that Protection for wire is in the national interest. When they were given the Protection they wanted they

were satisfied that no more than justice had been done, and they could spare little sympathy for the unfortunate users who had to pay more. Just when they were congratulating themselves, however, on getting Protection of 20 per cent, they discovered a shocking flaw in the scheme of things. The matter was explained by General Sir Walter Campbell, chairman of Messrs. Richard Johnson & Nephew, Ltd., at the firm's annual meeting.

"The tariff," declared the General, "is far from satisfactory. Under its provisions the raw material of the wire-drawers, *namely rod, has a 33⅓ per cent duty, whereas the finished article*, wire, is only protected to the extent of 20 per cent. This tariff is a definite encouragement to the foreigner to export the more *finished article rather than the raw material.*"

Now it is true this was not exactly a model of scientific tariff-making, and the matter was later adjusted; but it does illustrate how the interests, blind as they are to the burden placed upon users of their own protected product, open their eyes in horror when similar Protection is given to the makers of products they themselves use. Yet the bulk of the goods taxed under our new tariff system are in a greater or less degree the materials of other industries or foodstuffs for human or animal consumption.

TAXING SIR HERBERT AUSTIN.—There have been few more ardent supporters of the tariff system in this country than Sir Herbert Austin, the motor-car magnate, who had enjoyed the Protection of the McKenna Duties for many years before industry in general was brought into the tariff system. But it did not take Sir Herbert long to discover that, while Protection for the motor-cars he himself produced was an excellent thing, Protection for the makers of articles which he himself used in his production was an altogether different matter. People who displayed a personal preference for foreign

motor-cars deserved to be penalized by paying a heavy duty on them, but if protected motor-car manufacturers happened to prefer certain foreign tools (as Sir Herbert Austin did), and these tools were taxed for the benefit of the British makers, it was a scandal! And Sir Herbert, as is his custom, wrote to the papers about it.

THE FISHING INDUSTRY.—The conflict of interests which the tariff system provokes has been witnessed in many other industries during the past year or two. A first-class example has been the clash in the fishing industry. While the trawl owners were demanding high Protection against foreign fish, the traders—as well as the consumers—did not want a duty at all. The importers, wholesalers and retailers of fish, all opposed Protection, but as usual the applicants gained the day. When the conflict following the granting of the duty was at its height, the *Fishing News* of May 20, 1932, made this statement on the position:

"It is fortunate that the industry has its own trade journal which, when necessary, is willing to open its columns to every point of view. It would almost appear as if the daily Press either thinks that the trawling industry is the only section of the trade that counts. If that is not so, it is surprising that any attempt to gain equal publicity for the point of view of any other section is ignored. It cannot be too strongly emphasized that the trawling side of the industry does not and cannot speak authoritatively on behalf of the whole fish trade.

"The import duty has now been in force just over two months. The imports in the distributing markets mainly concerned with the sale of fresh fish, although finding that the necessary returns involve much time and labour, have cheerfully accepted this handicap to their business. But it is obvious that, apart from receipts from overseas, Billingsgate does not and will not receive sufficient supplies.

"The trawl owners, who are a well-organized body, are pressing strongly for the Import Duties Advisory Committee to recommend an increased rate of duty, and already the newspaper Press is being utilized to this end. As is well known to anyone

with the slightest first-hand knowledge of the trade, a certain number of vessels are laid up in rotation during the summer for overhaul, but an unfair inference is being drawn from this fact by paragraphs in various daily papers alleging that the owners are compelled to lay up their vessels owing to the competition of imported supplies.

"Any increase in the present rate of duty could not be other than detrimental to the supplies of fish food to the people. Not only would fish itself cost more, but the resulting increased call for other foodstuffs to make up the deficiency would increase costs for the alternative foods. On that account, it is hoped that the Import Duties Advisory Committee will see reason in the plea that the present duty on the people's food should not be increased."

On June 11th, writing in the same trade journal, a leading merchant ventured a further explanation of the fish trade's opposition to Protection: "The Billingsgate market is the largest in the world, and it is only kept open by the arrival of regular supplies of foreign-caught fish. Supplies forwarded from the coastal ports to London are predominantly of a very inferior quality. If supplies of good-class fish from Denmark and Norway were cut off, many prominent firms in Billingsgate would be forced to close down, and with them a large proportion of the retail fishmongers, not only in London, but also in the large area for which the London market caters."

Still the battle between the rival interests waged. On February 5, 1933, Mr. J. G. Burnett, Conservative Member for North Aberdeen, stated that "he could only agree (to heavier restrictions) on conditions that there should be a drawback for the exporting fish curers, so that the fish curers should not be injured by the tariff. The number of men employed in the fishing industry in Aberdeen, apart from the curers, was 3,611, and the total wages £895,000. It was very important that they should not in any way prejudice the industry in Aberdeen *if a tariff was imposed.*"

POULTRY, ETC.—Likewise in poultry, timber, shipping, and other industries, the Protection issue promoted what apparently was going to be perpetual strife between the rival interests. When the National Poultry Council demanded a duty of 33 per cent on imports, the London Wholesale Poultry Association and other bodies just as strenuously opposed it. Home supplies were quite inadequate to meet the huge demand, although remarkable progress had been made under Free Trade in recent years. The timber producers called for high Protection, while the traders and users opposed the application on the grounds—justifiable, as we have seen—that it would involve a heavy tax on production. It was pointed out with admirable persistence, but to no avail, that the home product was unsuitable for many purposes.

CHAPTER X

DISILLUSIONMENT

THE silence of the Protectionist champions in the months following the introduction of their system—which, they had prophesied, would do so much—spoke eloquently of the disappointment they suffered; and even the upward trend in 1933-4, due as it was to a variety of causes, found them uncomfortably half-hearted on platform and in the Press. True, the headlines in the tariff newspapers made the most of it and served to imbue the faithful with a spasmodic buoyancy, but the untimely and exaggerated claims of the smaller fry clashed badly with the disillusionment of the die-hards, whose dissatisfaction appeared to be rapidly growing into an open revolt against the Government which, under pressure, had saddled the country with their system.

"THE TIMES" FIRST!—But let us revert to the beginnings of the new regime. By a stroke of cruel irony, almost the first to display alarm at the hopes which had been falsely raised in the country was the City Editor of *The Times*, who is his notes was moved to write:

> "The smaller the amount of our imports the smaller must be the amounts that foreigners will have available to spend on British goods. Any unnecessary restriction of imports is to be deprecated, since it would limit exports and thereby reduce the total amount of international trade."

It might have been lifted from a Free Trade textbook!

For a time most of those whose voices counted with the public were content to wait and see. "It is too soon to judge," they said. "We must give the new system a chance." There was no such boom as one might have anticipated, knowing how great was the faith of so many

manufacturers and investors in the tariff cure. On the contrary, many of those who had been by no means backward themselves in fostering high hopes were now observed to be "hedging."

THEN LORD BEAVERBROOK!—On May 2, 1932, in the *Daily Express*, Lord Beaverbrook could contain himself no longer. Protection was not doing its duty by the farmers. "The livestock industry is getting no Protection for its products, but it is paying duties on its raw materials and its machinery. It pays duties on its grinding barley and its oats, on its linseed cake and its cotton cake. It pays duties on its implements and its machinery. The bacon curers import machinery from Denmark. They pay a duty on it. The machinery is essential to the sale of bacon on the market."

Well, this was Protection in practice. This was Protection as Free Traders had warned Lord Beaverbrook it would work. In what country has the farmer got a fair deal under Protection? The surprising thing is that so many people, including Lord Beaverbrook, imagined it would get a fair deal under the same system here.

QUOTAS AND QUACKERY.—A few days later, on May 15th, another eminent journalist who had played a notable part in directing public opinion along tariffist lines, made a surprise attack on the Government's Protectionist quota policy. This was none other than Mr. J. L. Garvin, who wrote in the *Observer*:

> "It begins to appear that, under the Marketing Act, fantastic excesses of bureaucratic regulation are possible. The whole mischief arises from the hasty mania for quotas with the notion of assuring to producers, good, bad, and indifferent, an equal market and a safe price. The whole craze will come to grief. Whether applied to coal, wheat, bacon, eggs, hops, or what not, the quota-method is quackery. For it means subsidizing the less efficient at the cost of the more efficient, and it cannot mean anything else."

While these famous persons were becoming alarmed at what was taking place, thousands of manufacturers and traders were becoming even more rapidly disillusioned by experience. For the most part they suffered in silence. Correspondence with these people revealed a prevailing terror lest their names or the names of their concerns should be linked up with anything in the nature of anti-tariff propaganda. This, too, was Protection. Manufacturers who hated tariffs dare not express their convictions. Disapproving of the system, they were yet compelled to make every effort, as long as the system lasted, to get their fair share of the bonuses which the Tariff Committee had been empowered to give to "genuine cases."

TAX ON TIMBER.—One of the earliest expressions of disillusionment came from a timber and furniture dealer in the City of London. He wrote:—

"The timber we import is used almost entirely for the manufacture of furniture and for shop and bank fittings, for which there are no suitable English woods. The immediate results to our trade have been an increase in price of timber, and an extra burden on the merchant, who has to find 10 per cent of the value of his consignment in cash immediately on the arrival of the goods.

"Before this year the furniture trade had always hankered after tariffs, but now that they have them they are wondering whether they are all they were thought to be. They have a tariff against foreign furniture, but they find that they have to pay more for their timber, plywood, screws, hinges, and other fittings."

Some months later, in August 1932, the *TimberTrades Journal* verified this statement of the position:

"It is necessary to bear in mind that there is no virtue in Protection itself. It is a necessary evil created by the system of commerce in other countries. Pressed to its logical conclusion, the Protection policy restricts international trade to a minimum and effects a tremendous reduction in the shipping industry.

There can be no excuse for the belief that tariffs are in themselves a blessing to this country.

"In the timber trade much disappointment has been felt at the manner in which the tariffs have been applied. It was never imagined a few months ago that sawn goods—raw material which we cannot economically produce ourselves—would be subject to a duty. This duty so far has had the effect of making it more difficult for importers to resell their wood to merchants, yardkeepers, and contractors. The imposition of tariffs on sawn wood can do nothing but augment prices."

This was Protection as it had operated in other countries before, for all to see.

STEAMERS LAID UP.—In September Sir Arthur Sutherland, chairman of the Tyne-Tees Steam Shipping Company, stated at the annual meeting of the shareholders that the company had had to lay up four steamers and pay off one hundred men on account of the loss of Continental trade which our new tariffs had produced. Dock workers, he said, would lose £170 per week in wages, and the demand for coal supplies and stores would be reduced.

THE RAILWAYS.—Nor were the internal transport services helped by the new restrictions. Eight months after the introduction of tariffs, Sir Ralph Wedgwood, chief general manager of the L.N.E.R., stated: "So far as stimulus to local manufacture is concerned, we have not seen any effect up to the present. On the other hand, we have seen a very marked diminution in many of our imports. I can recall no case where a tariff has led to local increase in production."

The late Lord Aberconway about the same time, at the annual meeting of the Yorkshire Amalgamated Collieries, Ltd., declared that "Tariffs have not strengthened the coal market. So far from iron and steel having gained by tariffs, I see very little change there. We had hoped that tariffs would indirectly have helped these trades, and

also the coal trade, but up to the present nothing has happened to justify the belief."

ARTIFICIAL SILK LOSSES.—The artificial silk industry, after so many years of Safeguarding, was proving a big disappointment to Protectionists, and in the industry itself there was much uncertainty. Addressing the shareholders of his company on March 9, 1933, Mr. Samuel Courtauld, referring to the failure of tariffs to effect what their supporters claimed for them, said:

"I think that irresponsible speakers have done infinite harm to the cause they are supposed to help. They have found plenty of dupes to believe them, and the inevitable disappointment finally becomes a very powerful weapon in opposition hands."

It was about this time, too, that the British Enca Silk Company announced a further loss of £85,502, bringing the total losses of this protected concern, started under the wing of the tariff in 1925, up to £569,988. The directors, it was reported, were still drawing their fees.

NO HELP FROM OTTAWA.—Next came the disillusioned speech of Mr. J. O. M. Clark, chairman of Messrs. J. & P. Coats, Ltd., on June 15, 1933:

In the home market the volume of business has only just been maintained at the 1931 figure in spite of the fact that last year our goods were protected by a 10 per cent duty. Whatever may be said in favour of the change in our fiscal system . . . I have never been under any delusion that Customs duties were going to help our company much, and it is certain that they have not assisted us in our foreign trade; indeed, they have tended to make things more difficult.

"We had looked forward to the Conference at Ottawa last year and to the possibility that we might derive some benefit by a reduction in the high tariffs levied on our British manufactured goods in many parts of the Empire, but I regret to say that our hopes were disappointed and no reduction of any importance in the rate of duty was conceded. I think I am expressing the opinion of textile manufacturers generally

when I say that the Conference did little to widen the opportunities of trade within the Empire so far as the textile business is concerned."

TEXTILE DEPRESSION.—The textile people were very far from satisfied with the results of the policy that was going to do so much for them, and the chairman of Messrs. Wolsey, Ltd., Mr. E. T. Walker, had to admit his disappointment. Mr. Walker, I am afraid, was one of those who believed everything his tariffist friends told him, but somehow things were not working out according to plan. Imports of stockings, he said, had been cut down by 57 million pairs in the first year of Protection, yet British manufacturers did not seem to have had a good year. In fact, 1932 was worse than 1931. "It is extremely difficult," said Mr. Walker, "to account for the fact that the stoppage of imports has not benefited the manufacturers or the operatives more than apparently it has done." Exports had declined by one-fifth, and the tendency continued.

MR. CHAMBERLAIN REBUKED.—The chairman of Wolsey's was only one among many who had been misled by the Protectionists. One of the people who had played a notable part in "converting" our manufacturers to tariffs was Sir G. B. Hunter, who for many years was in the habit of prefacing his admiration of the protective system with the remark that he was a Free Trader who had seen the light. Imagine our astonishment, then, when this noted convert, a fortnight after the chairman of Wolsey's had expressed his disappointment with "the cure," wrote to *The Times*:

"How very unwise it is for Mr. Neville Chamberlain, at Birmingham, to say we cannot go back to Free Trade, even if all the world adopts it! That assertion is a total disavowal of the chief pleas and arguments that have induced this country to accept tariffs, and it disregards and ignores the greatest and

most important of all British interests, which is to restore and maintain our export trades, which we cannot do without either reducing our costs of production or further reducing the value of the pound."

On June 15, 1933, Sir Walter Preston, chairman of Messrs. Platt Bros. & Company, Ltd., declared: "The textile machinery trade has sustained in the past year an even deeper depression than during the previous year. It has no home market, and tariffs have brought it no benefit." A few days before, on June 6th, addressing the City of London Real Property Company, Ltd., Sir William Burton had told the shareholders that £20,000,000 of London City property, chiefly warehouses and offices, were now untenanted. Tariffs, he explained, were largely to blame.

INCREASED COSTS OF PRODUCTION.—These expressions of disillusionment were not blazoned forth in the headlines of the Tory Press. One had to look in the odd corners for such news, if, indeed it secured a place at all. It was to the credit of the Birmingham *Daily Mail* that it printed a letter from the managing director of Messrs. Chas. H. Betts & Company, Ltd., who wrote: "We beg to make a very strong protest against the efforts of the Tariff Committee to crush out of existence those trades that are dependent on raw materials from abroad. . . . Tariffs have done irremediable damage to the trade of this country." Later Mr. Betts wrote: "For the twelfth time we have exhibited at the British Industries Fair, Olympia, but owing to the absurd tariffs on our raw materials, which must of necessity come from abroad, and amounting, with the adverse exchange rate and other charges to 75–100 per cent over and above what they had previously cost us, we have been compelled to decline all overseas inquiries. Owing to the tariffs the cost of production has increased to such a serious extent that

we are no longer able to compete with Continental manufacturers."

Among the many letters received from those who have been hit by our new tariffs was one from an unfortunate man whose business had been ruined. He wrote, not unnaturally with a trace of bitterness:

> "It would be interesting to have a careful inquiry made as to the number of people whose businesses have been ruined by tariffs, and the number of their employees who have become idle when the businesses were closed down, and try to express the facts in income-tax figures. I am sure that we should not need academic debates for and against tariffs then.
>
> "I used to pay rather substantial amounts in income-tax, and I wonder where the Chancellor is going to find the equivalent for the amount which he will not receive from me.
>
> "I am only one of thousands. I know of cases where very old and substantial businesses have been closed down."

HERRING FISHING ALARM.—I have already indicated, in my section on the "Conflict of Interests," how the fish trades have been embarrassed and hindered by the Government's tariff policy. But opposition to the measures has by no means been confined to the traders. The herring fishers soon found that their foreign markets were being endangered. In February 1933 the British Herring Trade Association, the Scottish Herring Producers' Association, and the English Herring Catchers' Association issued a joint Memorandum following the German retaliation against our 10 per cent duty on fish imports. Not only had 75 per cent of British herrings to be sold abroad, but our curers relied upon a free supply of foreign-caught white fish to maintain their business in the home market. The duty was a bad one both ways; it taxed the home curer and consumer, and it invited dangerous retaliation. The Memorandum concluded:

"While the herring fishing industry loyally refrained, in the circumstances then prevailing, from objecting when the 10 per cent duty was proposed (though it had many misgivings as to the reactions which would ensue to its detriment, and which have since proved the case) and while it expressly reserves to itself the right to submit to the appropriate Department of His Majesty's Government an Application having for its object the imposition of a substantial import duty on Norwegian herrings" (*i.e. fresh herrings imported January–March*), "it must now declare, with all the emphasis at its command, that any further addition to the import duty on foreign-caught white fish landed direct in the catching vessels from the fishing grounds would be likely to lead to repercussions in countries in which British-cured herrings find a ready market."

A LOST ORDER.—An example of how foreign customers were being lost as a result of our new policy was given in a letter from a firm of London merchants:

"In addition to the import business which we do with the Far East, we also export miscellaneous merchandise to Japan. Among other things, we have been sending them for some years regular supplies of British-made transfer paper. We had an offer from Japan for a five-months' supply to be sent in one shipment on condition that we could secure a reduction in price. Our Japanese customers pointed out that prices throughout the world had fallen, and they thought it only fair that some reduction should be made in this material. The following is an extract from the reply received from the British maker of transfer paper: 'As a matter of fact, the time is not opportune for considering price reductions, as the tendency is for the price to harden in consequence of quite a number of our raw materials being subject to import duties.'"

The London merchants lost the order.

DOMINION PROFITEERING.—The tax on imported lead was having similar effects and creating the same disillusionment. A maker of accumulators explained how the tariff worked as follows: Dominion suppliers of lead took advantage of the restriction placed upon *foreign lead in the British market to raise their price to*

British users. While the British maker of accumulators had to pay a higher price for his raw material, his foreign competitors benefited from the cheap price of foreign lead, and the British manufacturer could no longer compete abroad. As he already held the whole of the home market he had nothing to gain there, but with the foreign manufacturer enjoying cheaper raw materials he might very well soon lose this as well as the export market.

GLASS PRICES.—The summer of 1933 found our protected glass makers beginning to display anxiety lest the import duty should be reduced. The truth was that they were not making the sort of glassware that the duty was keeping out of the country, although it was in great demand. A trader on July 11th drew attention to the fact that the tax fell upon types of ornamental glassware made only on the Continent and not procurable in the United Kingdom. "The protected producer," he said, "had raised his prices, and the consumer was paying the difference." The protected manufacturers, he added, had refused to attempt to make the kind of article which was formerly imported.

The disillusionment at the way the new system was working displayed itself in some very unexpected quarters. I referred before to Sir Herbert Austin as one of the leaders in the campaign for tariffs in this country (except upon foreign articles which he imports himself!). Yet in October 1933, after almost two years of general Protection—which, we had always been assured, would mean higher wages for the workers—we read a speech by Sir Herbert, delivered at Oxford, in which he declared that "industry in this country is unable to support a higher wage or a shorter hour."

THE WHEAT TAX.—The Wheat Tax was having a very disturbing effect, and those shareholders who voted for tariffs must have been made to feel uneasy at the

annual meeting of Messrs. Spillers, Ltd., on May 6, 1933, when Sir Malcolm Robertson, the chairman, told them that the levy on flour was proving very expensive to the company. The tax on foreign wheat, he said, was not only raising its price, but was placing the British millers at a disadvantage with the Dominion millers. The company's experience of the results of both the Wheat Act and the Ottawa Agreement, he concluded, had increased his expressed doubts as to the benefit of this Governmental interference through taxation of foreign supplies.

A RESULT OF OTTAWA.—Similar disappointment was expressed at the annual meeting on March 29th of British Oil and Cake Mills, Ltd. The managing director, Mr. J. W. Pearson, informed the members that "the industry had been placed in a serious difficulty owing to the agreements entered into at Ottawa." The tax on linseed was a burden on the oil-producing industry. Ninety-five per cent of our supplies had been taxed in order to bestow a bounty on the Dominion producers of the remaining 5 per cent! The paint manufacturers suffered almost as badly, 92 per cent of their imports of linseed being dutiable.

The same authority gave us further enlightenment at the company's annual meeting on March 27, 1934. The position, he said, had been much aggravated by the Ottawa Agreement. Duties paid by the company which they were unable to recover amounted to £80,000, and the hope that India would soon be able to supply their needs did not look like materializing. Their export trade had become more difficult.

RAW MATERIALS TAXED.—The manufacturers of tinplates have also had a legitimate grouse. Mr. James Weager, of the Metal Trades' Association, reported that the South Wales tinplate producers had been *badly hit*

by our new tariffs. Their raw material, steel bars, was heavily taxed, with the result that many overseas orders were lost.

> "For years we have supplied the Spanish ports with tinplates for their canning industries. It is now a thing of the past. Italy, where evidently the welfare of the country is studied rather than the individual financial interests, seeing how we have handicapped ourselves for the benefit of the iron and steel combines, admits this raw material free of duty, and is now supplying Spain with tinplates."

The South Wales *Journal of Commerce* of July 4, 1933, confirmed this. Italian exports of tinplates had risen from 641 tons in the first quarter of 1932 to 6,333 tons in the first quarter of 1933.

> "The view is held that the expansion in the Italian export trade is due entirely to the effects of our 33 per cent duty. It is stated that the cheap Belgian and French bars which have been shut out from this country by the tariff have been disposed of to the Italian makers and converted by them into tinplates for export purposes."

UNSTABLE PROTECTION.—The disillusionment of which I have given readers some examples was reflected in the revolt of the Protectionist interests themselves over the Trade Agreements which Mr. Runciman completed in 1933 (much to his own, but to no one else's satisfaction). He had, declared the Federation of British Industries, speaking for the whole host of discontented Protectionist manufacturers, "created an atmosphere of dismay and uncertainty in industrial circles. The instability of Protection, if liable to sudden modifications, will undoubtedly paralyse enterprise and arrest development."

LOST FOREIGN TRADE.—Probably no responsible person has done more than Mr. Neville Chamberlain to create the opinion among manufacturers that tariffs would

effect wonders in this country, and it was Mr. Chamberlain himself who had the distinction of introducing the Import Duties Act in the House of Commons. Yet a year after his triumph (when he was acclaimed a worthy son of a famous Protectionist father), in a public speech, he said:

"We ought always to remember that in this country we have been in the past a great exporting nation. We have a large number of people who earn their living by making goods and selling them to foreign countries. In the last few years our foreign trade has shrunk till it is half what it was. The idea that we can replace what we have lost in foreign trade by any artificial stimulus appears to me doomed to disappointment. It is a hard saying, but it is necessary to say again what I firmly believe in my own mind."

I began this study of disillusionment by quoting the view of the City Editor of *The Times*. I shall conclude it with a quotation from the same authority taken from the issue of July 13, 1933, at the time when our "improved" trade balance was a subject of mild congratulation among tariffists, despite its having been achieved at the cost of £55 millions of lost trade in six months:

"The technical improvement, necessary and welcome though it be, cannot be the main objective of the country's economic policy, which of course must be to increase the total volume of overseas trade; for only by such expansion can prosperity be restored and unemployment substantially reduced."

CHAPTER XI

LOG-ROLLING

"I have made up my mind to this, that in no circumstances am I going to be responsible for any Government of which I may ever be the head making this country a profiteers' paradise, or making the British Legislature a crooks' corner."—MR. BALDWIN, at Hull, on July 17, 1931.

WHEN Mr. Baldwin, referring to the Free Trade criticism that Protection would introduce a general system of log-rolling in this country, made the above statement, he made it, I have no doubt, in perfect sincerity. Similar assurances have preceded the introduction of Protection in every country, only to be speedily proved worthless. So with Mr. Baldwin's. In little more than two years, log-rolling had become part and parcel of the system in this country. Indeed, so general has it become that it is acquiring quite a respectable tradition! I shall give readers some examples of blatant log-rolling on behalf of sectional interests by gentlemen who would, I dare say, be shocked to the core at any suggestion that their activities were not strictly above-board and thoroughly creditable. One of the most shameless cases concerns a Member of Parliament whose self-righteous pronouncements disarmed even some Free Traders in his own constituency!

AMERICAN EXPERIENCE.—Not only Mr. Baldwin, but many of his most responsible Protectionist colleagues scorned the idea that the practices inherent in the tariff system in the United States could ever insinuate themselves into the British system. They have been proved wrong. What a pity they did not give the American system more study! It may be recalled that great hopes

were entertained in the United States that their Tariff Board would be a safeguard against unsavoury practices. How great was the disillusionment is revealed in Mr. T. W. Page's *Making the Tariff in the United States*, when the writer, after acting as chairman of the board for five years, reviewed his term of office. Had Mr. Baldwin taken the trouble to examine the conclusions of this authority, he would not perhaps have been so free with his assurances. He would have come across the following passages, among many no less instructive:

"The tariff cannot be taken out of politics. The enactment or repeal of duties which affect either imports or prices must in doing so affect private interests. It will help some, and it will hurt others. Inert complaisance on the part of those affected is inconceivable. Pressure will always be brought to bear on Congress from many directions. It is inevitable that special interests will oppose duties which they consider harmful, and will work to secure those by which they expect to benefit.

"It is out of the question that there will ever be a Tariff Commission wholly composed of thoughtful and experienced men who have no opinion as to what tariff policy the country should adopt, and how it should be applied in certain specific cases. The members may therefore even perhaps inadvertently fall into the practice of planning investigations and presenting the results in such a way as to give unfair emphasis to facts that support their own views.

"The public hearings upon which reliance was chiefly placed for assembling information were attended in the main by those who had some special interest to serve; the worth of the matter presented at the hearings was impaired by bias, irrelevancy, unsupported assertions, and sometimes by intentional misstatement, and it was often impossible to distinguish what part was true and what was false.

"The men who testify at the hearings . . . are really advocates and not informants. They are not sworn, and they are not required to tell the whole truth, but may limit themselves to such part of it as sustains their case. Many elaborate briefs are presented; and letters, affidavits, newspaper clippings, one-sided excerpts from official and unofficial reports, and all sorts of extraneous materials, are admitted.

"When Congress is preparing to legislate . . . all sorts of rumours of impending action gain currency. The papers are filled with the baseless predictions of interested parties. Some members of Congress are accused of being swayed by unworthy motives, others are suspected of lacking decision, and pressure in many forms is brought to bear upon them to control their votes. Innumerable delegations and individuals visit Washington to argue, persuade, threaten, and plead. Many organizations open offices there to watch the proceedings, keep their members informed, and utilize all possible forces that might aid in securing the kind of tariff that would serve their peculiar needs. Intense jealousies and controversies arise among the conflicting interests. Blocs and factions are formed to work primarily for some special advantage to particular industries or sections. Doubt remains until the last vote is taken in regard to the outcome of a procedure attended by so much confusion, acrimony, and personal interest.

"Liberal campaign contributions, expensive and misleading propaganda, costly and expert lobbying, astute distortion of evidence, and the personal prestige and consideration enjoyed by men in control of great affairs are among the means at the disposal of 'big business' for securing duties needlessly high. And the power to divert the effects of the law is as important as the power to make it. Duties that have been declared necessary for the maintenance or expansion of an industry may merely swell the profits of those who control it. This obvious advantage explains why the American tariff has been called 'the mother of Trusts.' "

"THE TARIFF SCANDAL."—Corroboration, if any was required, came from Mr. Villard, Editor of the *New York Nation*, in his sensational pamphlet, *The Tariff Scandal*. Mr. Baldwin, had he carried his researches a little further, could hardly have failed to be impressed by such passages as these:

"In the long history of tariff legislation, that of the winter of 1929–30 should become classic because of the undisguised revelation of crass selfishness and rottenness of the whole tariff-making business, and the absolute demonstration that both Parties are now exactly alike in yielding to special privilege.

The cancer of tariff-bargaining and the bestowing of special Government favours upon protected industries has eaten as deeply into one as to the other.

"There was a time when tariff bargaining was at least done behind closed doors, with some decent respect for appearances. When ten United States Senators vote against an increased *sugar tariff on one occasion and defeat it*, and a few weeks later swing round and vote for it, the public has a right to ask whether they were paid, and by whom. The payment, of course, is not cash. The explanation is simply a swapping of votes by one man in exchange for the votes of another man in favour of the commodities which the first desires to have protected.

"No longer is there the slightest consideration of any economic principle. There is no pretence that there is anything scientific about it. The Democrats have cast overboard once and for all the principle upon which Grover Cleveland fought in the two *elections—that there should be a tariff not for protective* purposes, but for revenue only. The Republicans have discarded one of their old arguments after the other. They no longer talk about the need of protecting infant industries. They have forgotten the previous assertions that the tariff is necessary to maintain the American standard of living. They have agreed with President Coolidge that Americans do pay the tariff taxes, whereas the older Republican statesmen for generations contended that 'the foreigner pays the tax.

"When the Government, through Congress, fixes the tariffs for a business, it regulates the profits of that industry, thus becoming a partner in the industry, and a most influential partner, since it guarantees the profits. Under a system of tariff-making, it guarantees profits to industries whether they are weak or strong, old or new, honest or corrupt in their management, efficient or inefficient, necessary or unnecessary. The corruption of this protective system has corroded the moral fibre of the entire country, besides demoralizing the two great political parties. With every tariff wall there is built up a wall of hatred, ill-will, and distrust. In this ignoble competition the great American land of liberty, with freedom to trade within its borders, takes the lead so far as the rest of the world is concerned."

As recently as January 20, 1934, Mr. Walter Lippman, *the eminent American publicist, wrote in Time and Tide:*

"The other vital defect of our method of tariff-making is that, along with pork and pensions and patronage, it corrupts the intellectual integrity of Congress. Man after man has to sell his soul to satisfy the special pleas of some vested interest in his district. The trading of votes for special rates makes every tariff revision a national scandal."

AUSTRALIA, TOO.—From Australia, too, Mr. Baldwin could have learned much. In the Report of the Australian Tariff Board in 1928 occurs this reference to the subject:

"It has happened that after the Board has held an Inquiry at which over one hundred witnesses have been examined on oath, has carefully studied the whole of the public and confidential evidence, and has presented a recommendation, that a few men, parties to the Application, have made representations to Members of Parliament and the Government which have resulted in the setting aside of the weight of public evidence and the studied recommendation of the Board. It has been a practice of persons working in Parliamentary lobbies in the interests of their concerns to procure assistance for their object by bargaining for reciprocal aid—one State against another. The practice has been rather successful to the parties."

Commenting upon this state of affairs, Sir Hal Colebatch has written:

"Let anyone who doubts the existence and the influence of this pressure of vested interests visit Canberra about the time that a tariff schedule is being tabled, or when a tariff debate is expected, and he will come away saddened and disillusioned."

OUR OWN EXPERIENCE.—Our short experience of Protection in this country unhappily leaves us in no doubt as to the complete efficiency of the British log-roller. It is some time since Mr. Arthur Chamberlain, chairman of Messrs. Tubes, Ltd., uttered the following warning, but human nature under the influence of protective tariffs has not changed in the interval:

"Give us Protection, and we manufacturers will show you something in the way of rings and trusts and syndicates that you little dream of. With the possibility of getting a duty put on the things that are necessary to your competitors, and the possibility of keeping duties off things that are necessary to you, lobbying would become more important to the manufacturer than the slow processes of the factory. I could make more money in an evening in the House of Commons by arranging for the taxation of my opponents' necessities and for the maintenance of a free market for myself than I could make by honest industry in a month."

To-day, in Great Britain, we see it happening, just as *Mr. Chamberlain* prophesied. In the United States they have a tag, "Congress, Congress, don't tax me, Tax the fellow behind the tree," which applies not unfairly to the log-rollers here.

SILK LOG-ROLLING.—We had an early example of successful lobbying in the case of the silk industry. At the first attack the Government (of which Mr. Baldwin was a prominent, indeed a dominating, member) surrendered to an organized campaign by the vested interests and gave them the Protection which, through their representatives in the House of Commons, they so vigorously demanded. Lest this appear to be an exaggerated charge, let me quote a few lines from the 1932 Report of the silk firm, Messrs. Grout & Co., Ltd. When the Protection which the industry demanded was not immediately forthcoming, the chairman told the shareholders at the annual meeting:

"We started a very strenuous campaign inside the House of Commons with a view to impressing upon the Chancellor of the Exchequer the vital importance of doing something for our industry. It is common knowledge that our efforts were crowned with some measure of success."

The Chancellor of the Exchequer, it is perhaps superfluous to remark, is Mr. Baldwin's lieutenant.

If one is to judge by this case, an industry has only to shout loudly enough (i.e. enlist the interest and vocal talent of a sufficient number of Members of Parliament who are generally only too glad to have an excuse for making their presence felt in the House) to get what it wants. If the Tariff Committee will not listen to it, then Mr. Chamberlain will introduce Budget legislation to effect the needful. The new Silk Duties increased the Protection from $33\frac{1}{3}$ per cent to rates varying between 45 and 100 per cent.

CURIOUS BEHAVIOUR OF A PROTECTIONIST.—Among those who have gained distinction in the House of Commons for their work on behalf of protected interests is Mr. J. R. Remer, the Member for Macclesfield. It was he who, on May 2, 1932, declared in Parliament, "I hope that those responsible will see to it that the protective duty so long promised to the silk industry will be secured to the industry, and that we are not going to be 'sold' as certain other industries have been 'sold.'" A year later Mr. Remer surprised his friends by *opposing* similar Protection for home-grown timber. Mr. Remer does not import silk (though other people do), but he is interested in the importation of timber. Circumstances alter cases!

GLOVES.—Sir Basil Peto (Member for Barnstaple) and Mr. Herbert G. Williams (Member for South Croydon) have likewise shown admirable vigour in prosecuting the cases of certain industries, particularly the fabric glove industry. On March 12, 1933, they protested against the unfair treatment that had been meted out to the manufacturers of fabric gloves—forgetful, apparently, of the fact that they had enjoyed Protection under the Safeguarding regime for some fifteen years! The following day, referring to the demands made by these gallant Members, the *Western Morning News*,

a powerful advocate of high Protection for fabric gloves, declared that the industry was "on the verge of collapse." *Not* a good advertisement for tariffs! But the point to note is that the log-rollers got their way, and the tariff was increased to 30 per cent.

TOYS.—Another little industry that has managed to make itself heard above the general din is the toy industry. Indeed, it was the toy industry that provided Protectionists with most of their ammunition in opposing the Trade Pacts. One factory, it was reported, had increased its staff in expectation of better business under the wing of a high tariff, and the proprietor, indignant that the duty should be reduced from 25 per cent to 15 per cent, promptly put all his workers on half time. One may be forgiven for asking why they did not continue working full time for at least some weeks in order to cope with the greatly increased orders which, we were led to believe, had flowed in while the 25 per cent duty was in operation.

CARPETS.—The carpet industry, although by no means one of our staple industries, had always contrived to get a hearing for its claims for Protection; and now that it has got Protection it has conducted its campaign for more Protection with unabated vigour. On March 3, 1933, for instance, the Kidderminster Chamber of Commerce held a meeting at which our Tariff Committee was subjected to very harsh criticism for awardiog the industry the Protection of a mere 20 per cent duty. It was described as "a joke, and a very bad joke," and the chairman of the committee, specially appointed by the carpet trade to work for a higher tariff, declared that "we should take the strongest measures we can to register our disgust."

MACHINE TOOLS.—A very active Member is Mr. P. J. Hannon, who not only disapproves of any tariff reductions, but considers that no tariffs should be lowered

or removed until they have done everything the most optimistic of Protectionists claimed they would do before they were put on. Mr. Hannon seems to have the cause of the machine-tool makers particularly at heart, judging by a question of his in Parliament on March 1, 1933, when he asked Mr. Runciman if he could have an assurance that the 25 per cent duty on imported machine tools would not be removed until the home industry had been given an opportunity to expand its production.

HATS AND HOODS.—And so we might go on. No industry is for long satisfied with the Protection it receives, and the system compels every industry to invoke the aid of Members of Parliament to plead its cause. Soon the Member's seat in Parliament becomes dependent on the vigour with which he conducts the log-rolling campaign on behalf of the sectional interests of his constituents. The case of Dr. Burgin illustrates the point. Dr. Burgin used to be a Liberal Free Trader with an abhorrence of log-rolling. He has renounced his former views. To-day he gives second place to none in his efforts to gain benefits for local interests. On July 5, 1933, Mr. Mallalieu drew the attention of the House of Commons to a letter which Dr. Burgin had sent to the newspapers in his constituency, in which he had written:

> "The new Order which has just been made in regard to hats and hoods will fall to be introduced by myself, not as Member for Luton, but as Parliamentary Secretary to the Board of Trade. The people of Luton will readily understand what particular pride and pleasure I shall experience in making the speech introducing the Order imposing additional duties on hats and hoods, and how confident I shall be that the local colour and illustrations introduced into the speech will not be capable of contradiction from any part of the House."

A NEW DANGER.—It could not, of course, have been Dr. Burgin's activities that moved Sir David Milne-

Watson, President of the Bribery and Secret Commissions Protection League, to issue a stern warning to the public, because Dr. Burgin's effort on behalf of his constituents in Luton came after the President's statement. But it might well have been the rallying cry of Sir Charles Hipwood, director of the National Union of Manufacturers, on December 14, 1932, when he reminded the members of that organization that although they had got Protection their task was not yet done. On the contrary, it was only beginning. "Protection had many enemies. Its believers must stand together until it was established as an integral part of the national economy." The warning by Sir David Milne-Watson was issued on May 24, 1933, and ran as follows:

> "We are face to face with a new danger in British politics. The country has gone over to Protection, and one has already seen what a tremendous lot of wire-pulling is going on. Anyone with a little imagination can see that here is a new power which is likely to become an undesirable feature in our business life."

OTTAWA LOG-ROLLING.—I might leave it at that, but perhaps it would be as well to place on record the evidence of log-rolling *par excellence* which preceded the Ottawa Conference. My authority is Sir Edmund Vestey, managing director of the Union Cold Storage Company and head of the Blue Star Line. The Vestey concerns are our biggest meat suppliers. In May 1932 Sir Edmund wrote to Members of Parliament revealing the conspiracy which was being conducted by the Dominion meat interests to gain control of the British market "without any consideration of the real interests of this country." Looking ahead to the Ottawa Conference, Sir Edmund issued a straight warning that "the hotels will be thronged with opportunist advocates of the interests of Dominion producers at the expense of

the welfare of the British people and the future of Britain among the commercial nations of the world, of schemes calculated seriously to impair, if not completely to wreck, Britain's commercial prestige and independence, and incidentally to make Ottawa the gallows of the Conservative Party."

What happened at Ottawa—I am dealing with this subject separately—fully justified this plain speaking. The plans of the Dominion producers in conjunction with the home producers were based upon "the exploitation of British patriotic sentiment; a ramp to reduce supplies and increase costs." And then followed a statement which must have made a number of our Conservative Members of Parliament put on their thinking caps:

"We are beginning to see the danger of which Free Traders have so often warned us—that with the scramble of the Dominions to secure the highest possible prices for the foodstuffs they sell to the British people, and of Britain to divert manufactures from the Dominion factories, Imperial Preference may easily wreck the British Commonwealth. . . .

"At the present time representatives of New Zealand meat interests, in co-operation with British producers, are holding meetings in various parts of England in the endeavour to form a committee to urge the British Government to impose prohibitive tariffs on foreign beef, mutton, and lamb, and also to form a Quota Board. There would be no object in having such a Quota Board unless in practice it would be controlled by the Dominion representatives, with the main object of raising prices against the British consumer for the benefit of the Dominion producer. . . .

"It is only the underground methods of those working for the Dominions to secure control of British meat supplies in order that they may be able to compel the British public to pay millions of pounds more per annum than market prices, that has caused me to expose the astounding folly and cupidity of their whole efforts."

Please do not imagine that Sir Edmund Vestey is a Free Trader, voicing merely the fears of Free Traders

as to what would happen if the Protectionists gained control. He is a distinguished Conservative and a supporter of tariffs, but his inside knowledge of the ramp made him realize that Ottawa was fraught with "the gravest dangers" for our food supplies.

Log-rolling has been part and parcel of the tariff system in every country. I think I have shown beyond dispute that our new system is by no means free from the same deplorable characteristic, and that the British log-roller has very little to learn from the foreign Protectionist in the art of placing sectional interests above national interests and getting away with it under a cloak of false sentiment and sham patriotism.

Liberal Members of Parliament, conscientious Free Traders who have in the past warned the public of the log-rolling danger, have themselves been compelled to call for Protection for their local trading interests. As Free Traders, they agree that the reduction or removal of the duties would benefit the community as a whole, but because certain articles happen to be made by some of their constituents, they must work for the retention or increase of the duties. There we see Protection at work. As Free Traders, they hate log-rolling, but the system compels them to be log-rollers.

CHAPTER XII

THE OTTAWA AGREEMENTS (1)

THE Ottawa Agreements, signed in August 1932, are based upon the principle of Imperial Preference, against which Free Traders have always fought. The Ottawa Agreements would have been impossible had we not become a Protectionist country, since it was only by becoming a Protectionist country and taxing foreign imports, and in particular foodstuffs, that we could give effective Preference to Dominion and Colonial imports. Do the Ottawa Agreements help to justify our adoption of Protection? I propose to go into the matter rather fully.

Why, in the first place, have Free Traders always opposed Imperial Preference? Primarily, as I have said, because it involved the taxation of foreign imports. But that is not all. Mr. Churchill, when he was Under-Secretary of State for the Colonies in the Liberal Government before the War, presented to the Colonial Conference of 1907 the reasons for the refusal of the Government at that time to enter upon Preferential Agreements; and the reasons still appeared to Free Traders to apply to the situation as we knew it before Ottawa.

"No fair system of preference can be established in this country," said Mr. Churchill, "which does not include taxes on bread, on meat, and on that group of local stuffs classified under the head of dairy produce. What does preference mean? It can only mean one thing. It can only mean better prices. It can only mean better prices for Colonial goods. I assert, without reserve, that preference can only operate through the agency of price. I say that unless preference means better prices it will be ineffective in achieving the objects in favour of which it is urged.

"The operation of preference consists in putting a penal tax

upon foreign goods, and the object of putting that penal tax on foreign goods is to enable the Colonial price to rise to the level of the foreign goods plus the tax, and by so conferring upon the Colonial producer a greater advantage, to stimulate him more abundantly to cater for the supply of that particular market. I am bound to say that if preference does not mean better prices it seems to me a great fraud on those who are asked to make sacrifices to obtain it. It means higher prices—that is to say, higher prices than the goods are worth if sold freely in the markets of the world.

"What a dangerous thing it will be, year after year, to associate *the idea of Empire, the idea of our brethren beyond the* seas, the idea of these great young self-governing Dominions in which our people at present take so much pride, with an enhancement, however small, in the price of the necessary commodities of the life and the industry of Britain! It seems to me that you would, by the imposition of duties upon the necessities of life and of industry, breed steadily year by year, and accumulate at the end of a decade a deep feeling of sullen hatred of the Colonies and of Colonial affairs among those poorer people in this country . . . whose case when stated appeals to the sympathy of everyone round this table. That, I think, would be a great disaster.

"At present all our taxes are under our own control. An unpopular tax can be removed; if the Government will not remove it they can be turned out and another Government can be got from the people by election to remove the tax. It can be done at once. The Chancellor of the Exchequer can come down to the House and the tax can be repealed if there is a sufficient demand for it. But these food taxes by which you seek to bind the Empire together—these curious links of Empire which you are asking us to forge laboriously now, would be irremovable, and upon them would descend the whole weight and burden of popular anger *in time of suffering.* They would be irremovable because fixed by treaty with self-governing Dominions scattered about all over the world, and in return for those duties we should have received concessions in Colonial tariffs on the basis of which their industries would have grown up tier upon tier through a long period of time.

"Although, no doubt, another Conference hastily assembled might be able to break the shackle which would fasten us, to break that fiscal bond which would join us together and release

us from the obligation, that might take a great deal of time. Many Parliaments and Governments would have to be consulted, and all the difficulties of distance would intervene to prevent a speedy relief from that deadlock. If the day comes when you have a stern demand, and an overwhelming demand of a Parliament in this country, backed by the democracy of this country suffering acutely from high food prices, that the taxes should be removed, and on the other hand the Minister in charge has to get up and say that he will bring the matter before the next Colonial Conference two years hence, or that he will address the representatives of the Australian or Canadian Governments through the agency of the Colonial Office, and that in the meanwhile nothing can be done—when you have produced that situation, then, indeed, you will have exposed the fabric of the British Empire to a wrench and a shock which it has never before received, and which anyone who cares about it cannot fail to hope that it may never sustain.

"I submit that preferences, even if economically desirable, would prove an element of strain and discord in the structure and system of the British Empire. Why, even in this Conference, what has been the one subject on which we have differed sharply? It has been this question of preference. It has been the one apple of discord which has been thrown into the arena of our discussions.

"It is not because we are not ready to run electoral risks that we decline to be parties to a system of preference; still less is it because the present Government is unwilling to make sacrifices, in money or otherwise, in order to weave the Empire more closely together. It is because we believe the principle of preference is positively injurious to the British Empire, and would create, not union, but discord, that we have resisted the proposal. A fundamental difference of opinion on economics, no doubt, makes agreement impossible; but although we regret that, I do not doubt that in the future, when Imperial unification has been carried to a stage which it has not now reached, and will not, perhaps, in our time attain, people in that more fortunate age will look back to the Conference of 1907 as a date in the history of the British Empire when one grand wrong turn was successfully avoided."

THE TEST OF OTTAWA.—Did we take a grand wrong turn at Ottawa? Our main criterion must be the

general level of trade barriers in existence before and after Ottawa. Was the level lower after Ottawa, or was it higher? Were there more restrictions to trade, or were there fewer? If trade restrictions were diminished, then once again we might be said to have avoided a grand wrong turn.

It may be recalled that the professed aim of the British Delegates at the Ottawa Conference was to effect "the removal or limitation of existing barriers to trade"; that the terms of the Agreements signed by the Empire nations claimed to provide for "the lowering or removal of barriers among themselves"; and, further, that on the return of the British Delegation, with Mr. Baldwin at its head, we were told that the Conference had achieved "a degree of success far beyond anything that was expected."

BENEFITS FROM OTTAWA?—But, unhappily, the subject cannot be dismissed with this premature pronouncement. Shortly afterwards, in a broadcast speech, Mr. Baldwin modified his view, observing that "with regard to Ottawa, I think it might be well to suspend judgment till the facts are known." This was not so good; and when, later on, having had time to digest the facts as they revealed themselves, Mr. Baldwin spoke in the House of Commons, he dismayed his hearers with the statement: "What have we got out of Ottawa? I answer quite frankly. I do not know. No one knows."

A few—a very few—tariffs were lowered (and, as I shall show, the reductions were often illusory). Far more were raised. The volume of trade affected by the increased tariffs was much greater than the volume affected by reduced tariffs. While some increase in inter-Imperial trade was to be anticipated, it was clear, as Sir Arthur Salter at once pointed out, that it would be secured only at the expense of trade with other countries. In so far,

then, as it was the avowed object of the Conference to formulate a plan which by lowering Imperial tariffs would stimulate the trade of the world as a whole, the Agreements were a failure. Not many people would subscribe to the odd view expressed by Sir John Simon, the Foreign Minister, when, addressing the House of Commons, he said:

> "Empire produce now comes in duty-free under the Import Duties Act, and will continue to come in free after November 15th. That is, of course, enlarging the area of free imports. That is the first result of the Agreement at Ottawa."

The Empire produce which was to come in duty-free had, of course—and Sir John Simon was well aware of the fact before he turned tariffist—come in duty-free *before* Ottawa, and *before* the Import Duties Act. As the November issue of the *Free Trader* commented:

> "Oh, what a tangled web we weave
> When first we venture to deceive!"

A comment which might very well have been applied to a statement by Mr. Hore-Belisha, Mr. Runciman's chief assistant, who said: "It will be observed that in principle the Empire has abandoned Protection."

REDUCTION IN WORLD TRADE.—By increasing Protection, by raising and maintaining tariffs against foreign countries in order to deflect trade from its natural channels into unnatural channels, we had set out to make it more difficult for foreign debtor countries like the Argentine to pay what they owed us on investments and loans. How could we afford to trade more with the Dominions, asked Sir George Paish, who was Economic Advisor to the Treasury during the War, when our income from foreign countries was to be reduced? The question of what we got—and Mr. Baldwin had admitted that no one knew what we had got—in return for the

very real sacrifices we had been persuaded to make was of minor importance, since even much greater benefits than in fact we had got were insufficient recompense for the loss which a reduction in world's trade entailed.

BARGAINING HANDICAP.—On several other grounds the Ottawa Agreements were open to very serious criticism. The first concerned our power of negotiation with foreign countries for a mutual lowering of tariffs. This power, whatever its value, was seriously weakened by the Ottawa Agreements. True, as Sir John Simon reminded us, there remained the bulk of our duties on manufactured imports with which we might bargain, but it would have been clear to Sir John in his Free Trade days that these were the very duties which were most in demand. Was it likely that the vested interests that had entrenched themselves behind these tariffs would surrender the Protection they afforded in order that some other industries might secure more favourable treatment from the foreign bargainer?

BLOW TO WORLD CONFERENCE.—More serious, in my view, was the handicap under which we were going to labour at the forthcoming World Conference. It was no inducement to the nations to get together and tackle the problem of tariff reduction to see Great Britain, hitherto the leading advocate of freer trade, enter into a close compact with her Dominions to maintain a very considerable proportion of her new tariffs for a period of not less than five years. This, more than anything else, led to Sir Walter Layton's resignation from the Preparatory Committee for the World Economic Conference. Sir Walter had worked tirelessly in the cause of economic sanity, and he had won the respect of all parties. In his letter of resignation, in which he referred to "the growing tendency to introduce an element of permanency and rigidity into the tariffs of the world,"

he attacked the Ottawa Agreements. "I would mention specially," he said, "the introduction of the quota system in regard to meat; the implied endorsement in the Ottawa Agreements of the principle of 'compensatory' tariffs; and the unhelpful attitude adopted by Great Britain towards regional Agreements in Europe, such as the Dutch-Belgian Convention initialled at Lausanne in July of last year."

Not only was our policy unhelpful: it was positively harmful to our relations with the very nations who had been the most friendly disposed towards us—such nations as Denmark, Holland, and the Argentine. It was our trade with these nations that the Ottawa Agreements hit.

THE "COST OF PRODUCTION" FALLACY.—I come to three final points of general criticism—one of which is referred to in Sir Walter Layton's letter of resignation. This is our acceptance of what Sir Arthur Salter described as the "vicious compensatory principle"—the principle which justifies the use of tariffs to neutralize lower costs of production in other countries, thereby compensating home producers for what is adjudged to be unfair competition. This difference in costs of production of certain classes of goods in different countries is the basis of all international trade. If there was not this difference in costs of production, goods would not be exchanged between nation and nation. The belief that such differences in costs should be eliminated lies at the root of most of the restrictions to trade which hamper the world to-day. Its acceptance, as Sir Arthur Salter put it, involved action which was destructive of the very foundation of world trade. For the first time, at Ottawa, the British Government subscribed to it.

It is worth recalling the classic statement on this point made in the House of Commons by Lord Hugh Cecil in 1925:

"Of course, the only purpose of having a foreign trade is to have things sent here more cheaply than we can produce them ourselves. We do not want foreign trade for any other purpose. The idea that you can make everything just as easy yourself at a cheaper rate, apart from being practically unattainable under the conditions of production abroad, is not desirable. What we want from foreign countries are the cheap things which they make cheaply in exchange for the cheap things that we make cheaply. A mutual exchange of cheapness is the purpose of foreign trade. This present Bill appears to be framed on no economic principles in particular, and to make, on the whole, not for abundance but for restriction."

Worth recalling, too, that the Balfour Industrial Committee of 1930 examined the argument for compensatory tariffs and condemned it. "We have given the proposal our most earnest consideration," they say in their Report, "since in our view the principle involved is the most plausible and superficially attractive of all those which are customarily invoked in explanation and defence of tariff barriers. . . . We are of opinion that it is neither defensible in theory nor feasible in practice to frame a tariff policy with the object of neutralizing international differences in labour costs by means of differential Customs Duties."

In the United States and in Germany, where they accepted the principle of the compensatory tariff, they found that it was unworkable. "The difference in costs of production is unfit for general application as a measure of duties," declared Mr. T. W. Page, Chairman of the United States Tariff Board; and this view was endorsed by his successor.

DOMINION DICTATION.—We come to another point of principle. We agreed at Ottawa not to reduce, without Dominion consent, any tax on foreign imports where preference was involved for a period of five years. The very keen debate which took place in the House

of Commons on this point left Members of all parties with the rather uneasy feeling that it was unwise to remove the power of tax remission, especially on vital food and raw material supplies, out of the hands of Parliament, and to tie the hands of succeeding Governments in this all-important matter. Mr. Baldwin had previously assured Sir Herbert Samuel that it was in the power of any Parliament to abolish or diminish taxes imposed by a preceding Parliament. That assurance was not honoured at Ottawa. Future tax remissions which involve the withdrawal of preference will always bring us into sharp conflict with our Dominions, who will expect us to stick to the letter of the Agreements.

COLONIAL POLICY.—Finally, there is the question of our Colonial policy. Again for the first time, we subscribed to a policy which tended to deprive the Colonial Empire of its freedom in fiscal matters. We had departed from the "open door" policy which had been both the strength and justification of our Imperial rule. We had been accepted as the trustees of civilization. By the change in our attitude at Ottawa we laid ourselves open to the charge after many years of patient trusteeship of failing to honour our trust. This is an aspect of the Ottawa Agreements which must, I think, command more attention as time goes on. In this, as in other respects, the Agreements display all too little concern for indirect and long-term consequences.

Mr. Joseph Chamberlain anticipated this danger as long ago as 1896. His warning rings down to us to-day. (What a tragedy it did not carry across the Atlantic to Ottawa!):

"We, in our Colonial policy, as fast as we acquire new territory and develop it, develop it as trustees of civilization for the commerce of the world. We offer in all these markets over which our flag floats the same opportunities, the same open field, to

foreigners that we offer to our own subjects, and upon the same terms. In that policy we stand alone, because all other nations, as fast as they acquire new territory—acting, as I believe, most mistakenly in their own interests, and, above all, in the interests of the countries that they administer—all other nations seek at once to secure the monopoly for their own products by preferential and artificial methods."

THE CONSEQUENCES.—Can we ever live down the consequences of these disastrous pacts? We have secured no material reduction in Empire tariffs against our goods. The total restrictions in the way of world trade have been increased, to our detriment as the world's greatest trader. We have been a party to an Empire bargain which makes any general reduction in world trade restrictions more difficult of attainment than ever. We have sacrificed part of whatever bargaining power our new tariffs gave us. We have endangered our friendly relations with many foreign countries. We have made it more difficult for our foreign debtors to pay what they owe. We have sacrificed our freedom to lower duties on many vital imports without incurring the grave displeasure of our Dominions. We have accepted the vicious principle of the compensatory tariff. We have extended the pernicious quota system to many important food supplies. And we have scrapped the "open door" policy which has been the basis of our whole system of Colonial rule.

THE AGREEMENTS.—So much for my general survey of the Ottawa Agreements. I propose now to examine in greater detail some of the main features, presenting the reader, wherever possible, with concrete facts. This section will, I think, make it clear to him that the fears engendered by the first announcements have been and are being fully justified.

Under the various Agreements we conceded important preferences to the Dominions by a wide extension of

new duties on foreign goods. We committed ourselves to a tax of 2s. per cwt. on foreign wheat, despite the assurances of Ministers at the General Election that food taxes were no part of the Government's policy. Meat taxation took the form of restriction by means of quotas, with the avowed object or "raising the price of frozen meat in the United Kingdom market." The Agreements were for a period of five years, and we undertook not to withdraw any preferences for at least three years.

THE CANADIAN AGREEMENT.—Under this Agreement we guaranteed to Canadian goods free entry into our market such as they previously enjoyed. If after three years the interests of our home producers demand duties on such imports, preferences would be guaranteed by raising the duties on similar foreign goods. Wheat, butter, cheese, fruit, eggs, condensed milk, and copper were among the imports which we agreed to tax in order to give Canadian producers the preferences they wanted. We further undertook to regulate the entry of bacon and hams into our market in such a way as to provide Canada with a market for up to a maximum of 125,000 tons per annum—an amount very far in excess of our former imports from the Dominion. The Agreement included the clause providing for ample Protection for Canadian producers on the basis of relative costs of production. This was the compensatory principle with which I have dealt. The Protection was to be sufficient to give the Canadian producers "sound opportunities of success" in competition with our manufacturers. In return Canada agreed to give us increased preference on a number of imports. Numerically, when at last it was forthcoming, the list was impressive. As I shall show in a moment, its worth to our manufacturers was slight. In many cases the preferences were entirely illusory. Canada further agreed to reappoint an impartial Tariff Board, which

was to grant British manufacturers "full rights of audience." Existing surcharges were to be removed "as soon as the finances of Canada would allow," but not before. Canada refused to remove the unfair exchange dumping duty against our goods, though she promised to give the matter "sympathetic consideration."

THE AUSTRALIAN AGREEMENT.—Under this Agreement we guaranteed Australia preferential treatment for eggs, poultry, butter, cheese, and other milk products. We agreed to impose new taxes on foreign wheat, butter, cheese, fruit, eggs, condensed milk, honey, wine, copper, and other articles. We further guaranteed not to remove our duties on foreign leather, tallow, canned meat, lead, barley, wheat, flour, and many other commodities without Australia's permission. We promised to regulate our meat supplies to Australia's advantage. Australia in return agreed to give us increased preferences on a wide range of goods, but she reserved the right always to give her producers "reasonable" Protection against British goods. No tariffs, however, were to be raised without the recommendation of the Tariff Board, before which, as in the Canadian Agreement, British manufacturers were guaranteed full rights of audience.

THE OTHER AGREEMENTS.—The other Agreements were on the same lines, and I need not go into them. For particulars of the new Ottawa taxes I must refer readers to the table at the end of this chapter. What will be of more immediate interest to readers will be the value of the Agreements, and the manner in which the Dominions have carried them out.

The object of the Conference was to lower or remove inter-Imperial trade barriers; and, said the British Delegation on its return, the Conference had been a brilliant success. What caused Mr. Baldwin's disillusionment?

While our Delegates were proudly assuring the British

public that they had secured great benefits for us in the shape of reductions in Dominion tariffs against our goods, Mr. Bruce, leader of the Australian Delegation, was busy assuring the protected interests in Australia that "there had been no radical departure from Australia's fiscal policy," which, of course, involved high protective tariffs against British imports. Questioned as to whether the Agreements involved a lowering or raising of Australia's tariffs, Mr. Bruce replied:

> "There will obviously be a number of increases in the Australian tariff."

THE TRUTH FROM AUSTRALIA.—Attempts were made in this country to minimize the significance of these statements; and the debate on the Ottawa Bill in the Australian House of Representatives was eagerly awaited. This, our Delegates imagined, would clear away any misunderstandings that might exist. The debate began on October 13th. It was very illuminating. Mr. Gullett, Minister of Trade and Customs, set the ball rolling with the following pronouncement (quoted from the Australian Hansard):

> "This Agreement does not reduce the protective level of our Australian tariff. It does not call upon the Australian Government to reduce that level. On the contrary, although it does not reduce the protective level against British goods, it very generally increases the protective level against British imports. . . . The Australian manufacturer has his protective level raised over hundreds of duties.
>
> "I am certain," he continued, "that when the British Delegation came to Ottawa *it had not the faintest intention in the* world of granting to us in the British market a preferential position for *Dominion* meat. . . . We were *fully* conscious that nothing would so surely waken the great forces of Free Trade as a suggestion that the tariff would be used to add materially to the price paid by the British working-man for his bacon and beef and mutton. Nor could we forget that at that

time the British Cabinet included a number of Free Traders still unshaken in their fiscal faith. But while we were alive to the embarrassment certain to be caused to the British Government, we were *still more alive to the vital necessity of this particular* preference to Australia.

"We had to tell the British people, through their Delegates, that the present *prices paid by them for our produce* were so low as to be profitless to our producers, and to ask them to take steps to increase those prices against themselves for our benefit."

NO TARIFF REDUCTIONS.—This was enlightening. So were the pronouncements subsequently made by the Prime Minister, Mr. Lyons. On November 2nd, he said: "*There have been no tariff reductions as a result of Ottawa.*" The following day, November 3rd, he discussed the matter more fully. In reply to a question as to how far the Agreement provided for a lowering of duties against British goods, he said:

"The formula provides for a preference of 15 per cent and the Government is establishing that margin *by increasing the rates of duties against foreign countries.*"

Then, after referring to "the benefits which have been won by the Australian Delegates," he delivered a speech which contains many notable passages. With reference to the heavy supercharges on British goods—charges which Mr. Baldwin and his friends gave us to believe would be removed at an early date—he declared:

"Let me point out that all the safeguards of the Industries Preservation Act remain as they were before the Ottawa Agreement was entered into. . . . The fact is that the Protection which the Industries Preservation Act affords to Australian industries against dumping remains the same as it was before Ottawa, and it will continue until the termination of this Agreement."—*Australian Hansard*, November 3rd.

After remarking that it had been the aim of the *Australian Delegates "to induce the representatives of the*

United Kingdom to assist in implementing a policy which would lead to the lifting of the prices of Australian products," Mr. Lyons referred to the suggestion (emanating, apparently, from this country) that there had been tariff reductions as a result of Ottawa; and he declared: "*I repeat that there have been no reductions.*"

Lest there should be any shadow of doubt left, Senator Sir George Pearce, speaking for the Government on November 29th, declared emphatically (according to a *Times* message of November 30th) that "the Ottawa Agreement contained no promise that duties against British goods would be lowered."

CANADA'S "NO."—Let us turn to Canada. In the House of Commons on November 3rd, Mr. Bennett, the Prime Minister, made the following statement:

> "I say to this House and to this country that in the present depression, such as the world has never before seen, to do what was suggested (i.e. reduce tariffs) would bring about a dislocation of business; and we did not do it."

On November 17th Mr. E. J. Young, also in the Canadian House of Commons, dealing with the additional dumping duty which was levied on British goods entering Canada—a restriction which was three times increased after Ottawa!—said:

> "You have to add the dumping duty, and it makes a duty of approximately 21 per cent against these goods coming in from Great Britain as compared with 15 per cent plus 3½ per cent under the intermediate tariff. The rate is actually higher on goods coming in from Great Britain than from other countries."

The debate continued, and on November 22nd Mr. Bennett was asked to assure Liberals that at least the ordinary import duties against British goods would not be increased. Mr. Bennett's reply was: "I am afraid one could hardly make that promise." Nor would he agree

to accept the recommendations of the "not too biased" Tariff Board which was to be set up.

THE INDIAN AGREEMENT.—As for India, we have heard a great deal about the acceptance by that Dominion of the system of Imperial Preference. But on November 17th Sir J. Bhose, of the Viceroy's Executive Council, told the Chamber that the preference would not be Imperial Preference in the usual sense, and he further informed them that 55 per cent of British goods entering India would not come under the preferential arrangement.

In the Colonies, too, there is little to support the exuberance of our Delegates upon their return, and particularly the satisfaction, repeatedly expressed since then, of our Colonial Secretary. In the Straits Settlements there is opposition which had to be officially stifled before the Bill was formally introduced in the Council, and the part played by our Colonial Secretary in silencing the objectors does not bear close scrutiny.

COMPLAINTS FROM THE COLONIES.—Referring to the Agreements as they affect Fiji, the *South Seas Weekly*, in its leading article of October 22nd, says:

> "Now that an opportunity has been available for a more careful study of the Customs amendments, it is at once apparent that Customs duties have been raised, and this is tantamount to increased taxation."

The *Times of Ceylon* of October 17th, comments on the Agreements in acid fashion:

> "It is now clear that many bargains were made between the different Dominions and the United Kingdom, but if the existence of Ceylon and the Colonies was recognized in theory, it was ignored so far as practical results are concerned. Ceylon and the Colonies had no official status at Ottawa."

In Jamaica (according to the Kingston Correspondent of the December *Crown Colonist*) the results of Ottawa

are causing concern on account of the fact that over 30 per cent of Jamaica's imports come from the United States, which is also the Colony's, best market. The British Honduras Correspondent writes: "Bizarre is the mildest expression one can apply to the new duties. The imposition of a tax on cement is little short of an outrage on persons who are now borrowing from the Government to rebuild their homes. The same may be said of canvas and rubber shoes—the footwear of the people. As for the tax on vegetables, we can only assume it to be another sop to the British Honduras 'dancing farmer' to whom Mr. Punch gave whimsical publicity a few months ago over another tariff matter."

These were the facts for which Mr. Baldwin asked us to wait before passing judgment on his handiwork. Little wonder that, expressing his third thoughts in the House of Commons debate, he said:

> "What have we got out of Ottawa? I answer quite frankly, I do not know. Nobody knows."

THE OTTAWA TAXES

	Duties to be imposed by Great Britain by agreement with —				
	Australia	New Zealand	Canada	South Africa	Southern Rhodesia
Wheat, per quarter	2/-	—	2/-	—	—
Maize, flat white, per cent, *ad valorem*	—	—	—	10	10
Butter, per cwt.	15/-	15/-	15/-	15/-	15/-
Cheese, per cwt.	15/-	15/-	15/-	15/-	15/-
Raw apples, and pears, per cwt.	4/6	4/6	4/6	4/6	—
Canned apples, per cwt.*	3/6	—	3/6	3/6	—
Other canned fruits, per cent*	15	—	—	15	—
Dried fruits, now dutiable at 7s. per cwt.	10/6	—	10/6	10/6	—
Eggs in shell, not exceeding 14 lb. per great hundred	1/-	1/-	1/-	1/-	1/-
Eggs in shell, over 14 lb., but not exceeding 17 lb. per great hundred	1/6	1/6	1/6	1/6	1/6
Eggs in shell, over 17 lb. per great hundred	1/9	1/9	1/9	1/9	1/9
Sweetened condensed whole milk, per cwt.*	5/-	5/-	5/-	5/-	—
Unsweetened condensed whole milk, per cwt.	6/-	6/-	—	6/-	—
Milk powder and other preserved milk, not sweetened, per cwt.	5/-	5/-	—	5/-	—
Honey, per cwt.	7/-	7/-	—	—	—
Unwrought copper ingots, bars, blocks, slabs, cakes, and rods, per lb.	2d.	—	2d.	2d.	2d.
Raw oranges (April 1st to November 30th), per cwt.	3/6	—	—	3/6	3/6
Raw grapefruit (April 1st to November 30th), per cwt.	5/-	—	—	5/-	5/-
Grapes, other than hothouse (February 1st to June 30th), per lb.	1½d.	—	—	1½d.	—
Raw peaches and nectarines (December 1st to March 31st) per cwt.	—	—	—	14/-	—
Raw plums (December 1st to March 31st) per cwt.	—	—	—	9/4	—

* In addition to the duty on sugar content.

CHAPTER XIII

THE OTTAWA AGREEMENTS (2)

WHEN the lists of new duties prepared by the Dominions were published, any little spark of hope that may have remained in Mr. Baldwin's mind must have been immediately extinguished. Not that there was any lack of material for the partisan. Canada, for instance, announced reductions in duty on 133 classes of British goods. It sounded good. Government propagandists made merry play with the figure. There were also 130 increases in tariffs against the goods of other countries.

AUSTRALIAN "CONCESSIONS."—The Australian concessions, more vague, provided Ottawa supporters in this country with less powder and shot. They were wrapped up in a formula providing for certain minimum rates of preference. Where duties on foreign goods were 20 per cent or over, our goods were to enjoy a preference of 17½ per cent. Where they were 30 per cent or over, the preference was to be 20 per cent. Thus, if the duty on a certain class of foreign goods was 75 per cent, British goods were to be taxed a mere 55 per cent. There was, however, an important qualification. *The preferences were to apply only to goods which were not competitive.* Where they were competitive a mere 55 per cent tariff could not be conceded, and the full foreign rate of 75 per cent would be charged. It was announced that the 50 per cent surtax was to be removed on sixteen items. Increased duties, on the other hand, were to be applied to four hundred classes. (The surtax was a purely temporary crisis measure which the Australian Government had decided to remove in any case.)

NEW ZEALAND'S "CONCESSIONS." — New

Zealand tariffs, like Australian tariffs, had been rising, and the surtax and primage duty had been introduced into the system to provide additional Protection. Although British goods generally received a substantial preference, they were severely hit by the high rates. By the Ottawa Agreement, preferences of up to 20 per cent were to be maintained, but the New Zealand Government was empowered to reduce any preferences that might be above that figure. The surtax was to be abolished, and duties on a small number of goods, including wearing apparel, hosiery, and silk, were to be reduced. There was little in the concessions to suggest that the New Zealand market would prove of much greater value to our exporters, and when it is recalled that we take almost 90 per cent of New Zealand's exports the concessions appeared meagre.

South Africa, too, had been steadily increasing her tariffs, and the surtax and primage duty had been introduced. We had only received small preferences, and the Ottawa Agreements scarcely increased them. Actually, a limited number of articles were to enjoy increased preferences of from 5 to 10 per cent. Soap, wireless sets and batteries were the chief of the articles concerned. Our export trade had little to be thankful for in this Agreement.

The Indian Agreement was perhaps the least satisfactory of all. An increased preference was accorded to British galvanized sheet—on condition that it was made from Indian sheet bar. Thus, British sheet manufacturers who preferred to use British material were placed at a disadvantage with those who used Indian material. Preferences of 10 per cent were also accorded to certain other imports from Great Britain; but the benefit here was *illusory*. *The old duty was 15 per cent.* By means of the inevitable surtax this charge had been raised to 25 per cent before Ottawa. Now the surtax was

embodied in the duty, and when the 10 per cent preference had been given, the duty against our goods stood at 20 per cent—actually higher than the original duty! I shall notice the curious effects of this Indian "preference" later on.

THE RESULTS.—I have discussed the Agreements themselves. I have revealed how they were interpreted in the Dominions. And I have sketched the shape of the new preferences which were given us in accordance with Dominion interpretations. Now I shall ask the reader to notice the results of the changes.

Under the terms of the Agreements, both Canada and Australia promised to reconstitute their Tariff Boards in such a way that impartial consideration would be given to all claims for remission of duties on British goods, and to act as a safeguard against log-rolling. Our Delegates laid great stress on the value of this part of the Agreement. Many months passed, and the Canadian Board had not yet been appointed. Questions were asked in the House of Commons, but the replies always adjured Members to have no fear. Canada could be trusted to carry out her part of the Agreement. She must not be rushed. At last, in February 1933, the names of the impartial Board were announced. Mr. Runciman lost no time in making capital out of the fact. But the news from Canada was not reassuring. The Manitoba *Free Press* referred to the "disappointment and chagrin" of the Canadian public when the appointments were made known, and added:

> "The confidence of Mr. Baldwin, Mr. Runciman, and the rest in the capacity, wisdom, foresight, and broad-minded understanding which would be shown by the Canadian Tariff Board has been the *most touching manifestation* of artless political faith the world has seen in these days of cynical disillusionment."

Again, when the name of one of the Board was read out in the Canadian Parliament, it was received with a storm of laughter. "No more partisan appointment could possibly have been made," declared Mr. Mackenzie King. The Montreal *Gazette*, which is a Conservative paper, commented: "The public here and in England are not to be blamed if they look somewhat critically at the personnel of the newly appointed Tariff Board."

Some five months later, nothing having been heard of the activities of the Tariff Board in effecting reductions in tariffs against British goods, Mr. Lyons, the Conservative Member for Leicester East, asked Mr. Thomas how often it had met, and which British industries had had audiences, in accordance with the terms of the Agreement. Mr. Thomas's reply came as a shock to Members who had been assuring their constituents that the appointment of the new Tariff Board was one of the big achievements of Ottawa:

> "I understand that the Tariff Board of Canada took up its duties on May 1st and that, although no inquiries into the duties on United Kingdom goods have yet been made, the Board is *proceeding as rapidly as possible with the necessary preliminary* steps. I have no particulars in regard to the number of occasions upon which the Tariff Board of the Commonwealth of Australia has met since the ratification of the Agreement made at Ottawa or in regard to the number of United Kingdom industries which have exercised their rights of audience under Article 13 of that Agreement; but I understand that, since the Ottawa Agreement Act was passed in the Commonwealth of Australia at the end of November last, the Tariff Board has submitted numerous reports, which have resulted in the main in the reduction of the rates applicable to imports of the goods concerned from the United Kingdom."

All rather vague! Mr. Lyons thereupon asked whether he was right in concluding that there had so far been no great result from any application by any British

industry to the Tariff Boards of either Canada or Australia, although almost a year had passed since the Agreements were signed. To which Mr. Thomas replied: "The indications from Australia show that they are not unmindful of the circumstances, and I am sure that Canada will also respond, I hope speedily."

TARIFF INCREASES.—Little happened, and some time later Mr. Thomas said: "We have carried out *our* side of the bargain both in the letter and the spirit. There have been circumstances in the Dominions for which they are not wholly responsible which have created difficulties for them. I hope and believe that they will respond in the same spirit that we have." In May 1933, after hearings before the Tariff Board, the Australian Government proceeded to *increase* the duties on five classes of British goods! Mr. Latham, the Australian Attorney-General, said that the Government would not be bound by the Tariff Board's recommendations, and Mr. Gullett, the Minister of Trade and Customs, explained that for domestic reasons reductions in the duty on British goods were impossible in the meantime.

Domestic reasons did not prevent Australia from increasing her duties on a wide variety of foreign goods. When one recalled that the Ottawa Conference had been held with the object of lowering tariff barriers, it came as something of a shock to those who had placed their faith in Ottawa to hear that over four hundred Australian tariffs had been increased. Mr. Mander, on November 29, 1932, asked Mr. Runciman whether he could verify this information, which had first been given over the wireless. Mr. Runciman, with much dignity, replied: "No, I do not gather my statistics from the British Broadcasting Corporation." The information, however, happened to be correct, and it was surprising that our President of the Board of Trade had not been made aware of the

statement made by Mr. Gullett in the Australian Parliament, as follows:

"This is a completely new tariff. It gives effect to the formula margin of preference and other changes that were agreed to by the Australian Delegation at the Ottawa Conference. The application of the formula has resulted in an increase in the general tariff over a large number of items. There are 440 items under which immediate increases are being imposed."

And I would particularly ask readers to note his further statement:

"The total number of reductions is 26—20 under the British preferential and 6 under the general tariff. Nearly all these reductions are made in items which have no protective significance, while others are adjustments of anomalies which would have been effected at the first opportunity, and are not connected with the Ottawa settlement."

In March 1933 the Australian Parliament debated the subject of the new tariff. The Country Party moved the following amendment:

"That the Government without delay submit a further Schedule which will carry out the terms and the spirit of the Ottawa Agreement with respect to increased preference to British goods in the following manner:

"Duties against British goods to be reduced to the level of the 1921–30 tariff in all cases where they have been raised above the level without report by the Tariff Board."

The debate provided further evidence, if any was needed, of the complete failure of our Delegates at Ottawa. The Australian Government, said its first spokesman, could not possibly be expected to lower the duty on British goods. It had accordingly increased the duty against foreign goods. Mr. White, who had succeeded Mr. Gullett as Minister of Trade and Customs, defended the new tariff on the grounds that *the Protection against British goods amounted on an average to only 75 per cent!*

A "RAW DEAL."—The manifest failure of Australia to make any concessions of any worth in return for the preferences we had given her led to the resignation of Mr. Hawker from the Lyons Ministry. Mr. Hawker's comment, printed in *The Times* on September 5, 1933, is noteworthy:

"The 'raw deal' which our Government is giving Great Britain in return for handsome benefits is blighting our opportunities by killing the hopes once held in Britain that Dominion trade was worth encouraging, even at the risk of British trade elsewhere. The rising tide of disappointment and indignation is clearly heard from the House of Commons. It is seriously affecting our prospects and may develop into permanent damage unless the Dominions, particularly Australia, do the fair thing. Broadly speaking, Australia promised tariff reduction to a competitive level; but tariff revision has been paralysed by the delay due to the preliminary Tariff Board investigations. The Government's policy seems to be to avoid really ratifying the Agreement."

In September, following the Ottawa Conference, Australia prohibited imports of sheet glass, in spite of the Tariff Board's recommendation to the contrary. Sir Hal Colebatch, in the Australian Parliament, asked if this was not a breach of the Agreement with the United Kingdom. The official reply was: "It is not considered so," the point being that although Australia had agreed not to increase any *existing* tariffs our Delegates had omitted to get a guarantee that she would not levy *new* tariffs. The spirit of the Agreement apparently did not enter into the considerations of the Australian Government. Our exporters were hit by this new tariff, one Lancashire firm losing a trade worth £30,000 a year. The type of glass which the tariff shut out cost £154 to produce in Australia as against the Lancashire cost of £88.

UNECONOMIC PRODUCTION.—The extent to which Australia was prepared to go in her efforts to foster

uneconomic production was revealed by Dr. Earl Page in a debate early in 1933. He gave the following examples:

"The overseas f.o.b. price of a band saw, which is not manufactured in Australia, is £43 14s., exchange amounts to £14 1s., the duty on wrappings, etc., to £27, which with other charges brings the landed cost up to £97, equalling 122 per cent Protection."

"Window glass manufactured in Belgium can be bought there f.o.b. at £4 11s. 1d., but after all charges have been paid the landed cost in Australia is £15 5s. 7d., which is equal to a protective duty of 235 per cent."

In the same debate, the Hon. T. Paterson gave these further instances:

"I have received a letter from a hat manufacturer in Sydney which shows that the price of certain hat braids, which cost £53 9s. 2d. in Switzerland, was increased by £39 5s. 6d. through exchange, £16 16s. through duty, primage, and other charges, making the total cost of them £109 10s. 8d., or 106 per cent."

"A parcel of 424 pieces of ribbon cost £47 17s. at the factory in London; but duty and primage increased the price by £44 8s. 2d. exchange and stamps by £14 10s. 10d., and freight and casing by £4 9s. 7d., making total cost £111 5s. 7d., or 133 per cent more than the original cost."

The Protection of hosiery provides another example of Protectionism carried to extremes. The Tariff *Board*, noting that the duty against British and foreign hosiery was prohibitive, stated in its Report: "In nearly every case the duty charged exceeds the manufacturers' selling price. Labour involved in the manufacture of socks and stockings is small in relation to total cost. In several cases coming under the Board's notice, the rate of duty now payable under the British Preferential Tariff is from three to ten times the amount expended in direct labour in Australia." *Fruits of Ottawa!*

In March 1933, hopes were again raised by the announcement that Australia had removed the 50 per

cent surtax in many cases, and that a number of other duties had been slightly lowered. In the following October the primage tax on British goods was halved. Both these taxes had been levied as crisis measures at the time of Australia's financial collapse. They were levied on the understanding that when order was restored they would be abolished. Their reduction was not, as some claimed, "a result of Ottawa." Even so, they were welcome to the British exporters affected, although it has to be said that despite the reduction in these supercharges the duties still remained in many cases prohibitive.

VIOLATION OF THE PACT.—In March had come the news of what seemed to be a clear violation of the Ottawa pact. It was announced that under the wing of the tariff Australia was going to attempt to produce tinplates. Following the Ottawa Conference our South Wales tinplate producers had entered into negotiations with the Australian canners, and they were anticipating an increased trade. The decision to start production in Australia came as a severe blow to their hopes. Only by placing a prohibitive tariff on imports of Welsh tinplates could the Australian plan mature. Yet at Ottawa it had been agreed that complementary rather than competitive production should be encouraged among the nations of the Empire. In June 1934, on his return from a visit of inquiry to the Dominion, Mr. W. R. Lysaght told our manufacturers that they must reconcile themselves to the total loss of the Australian market for these products, owing to the artificial development of the local industries.

Another duty that was causing ill-feeling was the 90s. a ton tax on Welsh galvanized iron. Australia was only able to produce this by giving the industry a bounty equal to the whole labour cost, and even then the user was paying more than he did for the imported product.

CANADIAN REDUCTIONS.—Lest we appear to

be too hard on Australia, let us turn to Canada. We have noticed how the promise of the impartial Tariff Board and the full right of audience for British manufacturers had not matured. But what about the one hundred and thirty-three reductons in Canadian tariffs against our goods? What did they amount to?

Not much. In some cases, to nothing at all. The woollen industry were among the first to suffer disillusionment. They had sent representatives to Ottawa to negotiate an agreement with the Dominion producers. On their return they issued the following Report:

"It became clear that the Canadian trade representatives were determined that their home industry should remain fully protected against competition from outsiders; and it was obvious that any agreement with them was impossible. As to Australia, the discussion left no hope of reaching any mutual and equitable arrangement.

"No arrangement was reached with the South African representatives, the English representatives being informed that it was useless to raise the question of blankets, as there were sufficient blanket manufacturers in South Africa to supply home needs, and that they must be protected to the fullest extent. As to New Zealand, the Trade Commissioner could not hold out much hope of lower duties. Interviews with the Trade Commissioner in India yielded no tangible results."

TEXTILE TARIFFS.—Shortly afterwards, the weekly trade journal, *Canada*, referring to the effect of the Ottawa Agreements on British woollens, quoted the following cases of Canadian charges:

"A shipment of 265 yards of heavy wool overcoating from Britain was cleared in Montreal on October 17th. The invoice price was £33 12s., the equivalent of 124 dollars at present rates. The new duty paid was 138 dollars, or about 110 per cent. Before the tariffs were increased in 1930 by the present Government the tariff was only 25 per cent. Another case was 6,000 yards of white bleached cotton from Lancashire, cleared at

Montreal on October 18th. The invoiced price worked out at 285 dollars, and the duty paid was 59 per cent, as against the old 16 per cent."

Mention of these cases reminds us that Mr. Baldwin assured us on his return that many Canadian tariffs had been reduced. Although he did not say so, this is what the "reduction" meant. In the case of another line of overcoating, of a lighter quality than that mentioned above, the duty before Ottawa was 89·5 per cent. This article enjoyed one of the most handsome reductions on the list. It was actually reduced to 75·7 per cent. No doubt Mr. Baldwin had this in mind, but what he did not tell us, perhaps because Mr. Bennett did not tell him—was that the duty on this article before Mr. Bennett raised it on the eve of the Imperial Conference of 1930, was only 24 per cent. Similarly wool hosiery enjoys a reduction from 79 per cent to 71·7 per cent. Before the 1930 increase it was only 23 per cent.

MR. BENNETT AND RUSSIAN "DUMPING."—One of the bees in Mr. Bennett's bonnet was "Russian dumping." The Canadian Prime Minister spared no effort to persuade this country to take action against this "menace"—particularly action which would operate to the benefit of Canadian producers. The Canadian timber producers were anxious to capture the British import market, but Russian competition was embarrassing. If only it could be strangled! Our Delegates for a time stood firm in this matter, however, and all they conceded was the maintenance of the 10 per cent preference to Canada. We had already seen how, the moment the 10 per cent duty was put on, the Canadian producers raised their timber prices by almost the amount of the duty, and quite rightly we were not going to penalize our users further by granting Canada the monopoly Mr. Bennett wanted.

Mr. Bennett regarded our importation of Russian

timber as little less than iniquitous. Yet, at the very time he was using all his eloquence to persuade us to give up trading with the wicked Russians, he was presumably cognizant of a new agreement signed between the Aluminium Company of Canada and the Russian Oil Company for the exchange of their products. His self-righteous attitude was further discredited when it was revealed that the pressure to persuade Great Britain to break off her trade with Russia had come from the Canadian Lumbermen's Association, who went so far as to suggest that the British timber trade was "an active partner of the Russian trade and was financially interested in eliminating Canada from the United Kingdom market." Yet it was this Canadian influence that moved us to denounce our trade treaty with the Soviet. Mr. Baldwin, Mr. Chamberlain, and Mr. Thomas all gave different excuses for so abjectly surrendering to a highly organized log-rolling campaign.

PROHIBITIVE TARIFFS.—The *Economist* Ottawa Correspondent on November 5th expressed surprise that our Delegates had been induced to sign the Agreement with Canada. If it was imagined that the instances I have given above of new Ottawa Duties were in any way exceptional, the idea was speedily dispelled by the publication in this same issue of the *Economist* of a long list of Canadian Duties on British goods as they stood (1) Under the Dunning Tariff of 1930; (2) Under the Bennett Tariff of 1932 before Ottawa; and (3) under the new Ottawa Tariff. The list speaks for itself. The comparatively modest duties in force in 1930 were raised to prohibitive heights before the Ottawa Conference, and the reductions which our Delegates were invited to accept—and did accept!—in most cases left the duties at prohibitive heights. Observe the number of textile goods on the list

	Dunning, 1930, per cent	Bennett, 1932, per cent	Ottawa, 1932, per cent
Unbleached cotton fabrics	13·7	39·7	38·6
White cotton flannelette	16	48·3	46
Cotton printed piece-goods	19	48·2	45·6
Cotton fabrics with cut pile (velvet) ..	17	38·2	29·3
Coloured cotton lace	19·2	34	33·7
Cotton pillow cases	16	49·3	47·5
Cotton sheets	16	50·7	48·5
Cotton towels	15	53·6	51
Cotton lace curtains	19·2	40·3	40
Linen crash towelling	19	40·7	43·6
Linen tablecloths	19	46	15
Linen pillow cases	20	45·2	44
White linen towels	19	48	48
Celluloid and cotton novelties ..	21·5	48·3	48·3
Cotton and art silk bedspreads ..	21·5	49	49
Wool blankets	21	92	66·2
Wool piece-goods in the grey.. ..	11	49·3	46·5
Wool overcoatings for manufacture ..	24	89·5	75·7
Wool piece-goods	26	55·7	54·5
Wool overcoating	26	93	81
High-grade wool suitings	25	60·7	57·2
Wool suitings	24	62	55·7
English worsted suits	26	56·6	54·7
Wool blazers	26	61	58·3
English wool coats	26	62·5	59·2
Artificial silk fabrics	22	68·5	68·5
Cotton and art silk fabrics	25	73	73
Artificial silk lace curtains	23·7	44·5	44·5
Knitted sweaters	19	43·5	43·5
Wool hosiery	23	79	71·7
Gloves (cape)	21·5	43·6	43·6
Ladies' hats	21	40·2	40·2
Axminster carpets	23	92·5	71·5
Earthenware articles	19·2	43·5	43·5
Silverware	20	49·2	49·2
Plated articles	21·5	49·3	49·3
Boots and shoes	16·2	39·2	39·2
Fancy pins, buckles	21·5	49·2	49·2

BRITISH DISILLUSIONMENT.—Instances of the failure of our Delegates to secure anything like fair concessions from Canada continued to come to light. *The Times* of January 16, 1933, published a letter from Mr. J. W. Shillan, managing director of the British Motor Boat Manufacturing Company, in which he said:

"Marine dealers all over Canada want to sell this British-made product, but they are precluded from doing so because of the dumping duty, which makes the price higher than that of the American product. The dumping duty is driving business away from the manufacturers in this country to the American manufacturers. May we suggest that Mr. Bennett immediately carries out his promise?" (To consider the cancellation or modification of the dumping duty.)

This was borne out by a letter which a London firm of merchants received from a Canadian importer. As the head of the London firm said, "Believing that some real results might emanate from the Ottawa Conference, we conducted a big campaign, writing to thousands of Dominion importers in an endeavour to obtain their custom for British goods." The reply quoted ran as follows:

"We do not import complete equipment, nor do we manufacture anything in the electrical line. The reason for no importation is because of the rigid rules of the Hydro-Electrical Power Commission. We therefore have to confine our efforts to products of Canadian manufacturers who have such approval."

A similar case of disillusionment was revealed in another letter from a Canadian firm by a British exporter who, hopeful that the Ottawa Agreements meant an expansion of trade in the Canadian market, had invited the Canadian firm to act as his agent in the Dominion. Here is the reply:

"We thought that the Ottawa Conference was going to be of great assistance to the British houses in the furtherance of merchandising their products, but our Government are still insisting on a dumping duty between the values of sterling on

goods of a class or kind manufactured in Canada; in other words, they do not permit buyers buying goods at the depreciated value of sterling to-day, without paying the Government a portion of the deflation, which, of course, increases the cost, and we cannot see how it is assisting, to any great extent, the British manufacturers. There are many lines produced in Great Britain that are already being manufactured in Canada, and the odds are against Great Britain, because our Government are giving such Protection to the Canadian manufacturers that it does not enable the British to ship goods in here and compete."

A "CONCESSION"!—But it would be unfair to ignore one concession that Canada has agreed to give us as a result of Ottawa. In future "storage batteries with plates in excess of 14 by 11 by $\frac{3}{4}$ inches in thickness" are to be admitted free of duty. There is only one snag. Mr. D. P. Dunne, managing director of the Chloride Electrical Storage Co., stated that "there are no such plates known in the industry."

How the Ottawa Agreements perpetuate handicaps to British trade was also explained by Mr. Dunne. His firm, which is the largest manufacturer of accumulators in the British Empire and employs three thousand hands, depends largely upon its export trade. The principal raw material is lead, and this has to be imported. Now, a duty was placed on the foreign supply of lead, and immediately the Empire suppliers took advantage of their monopoly to raise their price, involving an additional cost to the users of £75,000 a year. This was reported to the Government, who replied that they would not tolerate such exploitation. But that was all. The exploitation went on, and the Government did nothing. The result has been that foreign manufacturers of accumulators, having an untaxed supply of lead, are making up lost ground. The British users were hoping that the Ottawa Conference would put things right, but—"We have been disappointed once more," declared Mr. Dunne.

"Far from helping, the Agreements fix the duty on lead for a period of five years."

How the Canadian Duties mounted up until they were prohibitive was explained in a letter received from a correspondent in Vancouver. He had to pay the following charges on an article imported from Great Britain—and this was *after* the Ottawa Agreements had come into force: Value of article, 17.85 dollars; import duty, 7.25 dollars (quite moderate, this!); additional duty, 1 dollar; specific duty, 1.82 dollars; dumping duty, 2.89 dollars; total of duties, 12.96 dollars, or 72.1 per cent of the value of the British article.

PREFERENCE TO GERMANY.—Another case showed how the Ottawa charges actually gave preferential treatment to German goods in competition with British goods. A Canadian importer, wishing to take advantage of the 10 per cent preference which the Government had agreed to give to British suits, placed an order with an English firm. He had to pay duties as follows:

"*Ad valorem* duty, 10.8 dollars; specific duty, 0.68 dollar; sales tax, 3.09 dollars; Excise (protective) duty, 1 54 dollars; dumping duty, 4 96 dollars; total, 21 07 dollars, or 69 64 per cent."

He made inquiries as to the amount he would have to pay on a German suit of the same price. He was informed by the Customs that it would be only 17.30 dollars, or 57 per cent, the difference, of course, being accounted for by the discriminatory dumping duty on the British article.

In February (1933) the British Chamber of Commerce called attention in their Report to one of many similar examples of the sort of treatment meted out to British exporters:

"A letter received from the Nottingham Chamber of Commerce was reported on the subject of the Canada-German Agreement, under which Canada accorded intermediate tariff

treatment to Germany. This arrangement operates to the disadvantage of the British hosiery industry, as under the Canadian Intermediate Tariff the rates of duty on hosiery are approximately only 2½ per cent higher than the British Preferential Tariff Rates; and as hosiery is manufactured in Canada, British-made hosiery is subject to the exchange dumping duty on account of the depreciation of British currency, which amounts to approximately 12½ per cent. As Germany is still on a gold basis, exchange dumping duty does not apply in the case of German hosiery imported into Canada. Even if the 10 per cent rebate for British goods shipped to Canada is taken into account, it will be seen that, so far as British hosiery is concerned, there is no preferential rate of duty, and that Germany has an advantage for hosiery.

"The Committee recommended that the Association should make a further protest against the continuation of the exchange dumping duty, which completely destroys the value of the preferences given to British goods at Ottawa."

A QUESTION FOR MR. RUNCIMAN.—In March 1933, in the House of Commons, Mr. Holdsworth asked why certain cutlery, which appeared on the Canadian Free List, had been subjected to duties on entering the Dominion. He received the following interesting reply from Mr. Runciman:

"Carving-knives are dutiable at 15 per cent *ad valorem*. Fancy boxes are dutiable separately at 18 per cent *ad valorem*. If the knives are imported in fancy boxes, and the value of the knives apart from the boxes is not quoted, the duty is levied at 18 per cent *ad valorem* on the complete article."

It was becoming increasingly clear that all was not gold that glittered in the Ottawa Agreements. Articles that appeared to have been given preferential treatment, even articles which figured in the Free List, were finding entry to Canada difficult. The Customs, perhaps not unnaturally, seemed particularly anxious to keep out any books containing the truth about Protection and Free Trade,

if one could judge by the following letter from a Canadian inquirer after the truth:

"The books have arrived. Many thanks for prompt attention. I want to tell you, however, how much these cost in Canada. The books are admitted duty-free—at least so they are recorded at the Customs. But I would not like you to get the idea that 'duty-free' *means* duty free. I paid a 6 per cent sales tax. Then a 3 per cent Excise tax; but this Excise tax is not an Excise tax at all, because it is levied on imports and is in reality a Customs duty. It is levied on the par value of the £, making an impost of approximately 4 per cent. We kid the Britisher with the idea that we are admitting his products free; and, at the same time, we give Canada the 'advantage' of a protective tariff. These so-called advantages are an intolerable burden which is crushing the economic life of one of the richest countries under the sun."

BRITISH "DUMPING."—In July yet another case illustrating the illusory nature of the benefits received at Ottawa was revealed. The Nova Scotia coal interests, finding production costs under high Protection somewhat heavy, complained to the Canadian Government that they were being undersold by "dumped" bituminous coal from Great Britain—despite the fact that the Nova Scotia coal enjoyed subsidized carriage from the pits to the works. The result was that Canada imposed a special "dumping" duty on the British coal.

While most of these cases were sedulously omitted from the majority of tariffist papers in this country—*The Times* was generally an exception—the truth about Ottawa was leaking out. With the intention, evidently, of combating the feeling of disappointment, not unmixed with anger, that was growing in industrial and trading circles, Mr. John W. Ross, President of the Canadian Chamber of Commerce in London, stated, in a message to the British Press, that "the Protection enjoyed by the Canadian textile trade (against British goods) was less under present tariff

rates than was the case five years ago." The accuracy of the statement was challenged by the chairman of Messrs. Ferguson Bros., Ltd., in a letter to *The Times*, in which he wrote:

"Our own experience as manufacturers and exporters of cotton goods and also of artificial silk goods shows us that the Canadian tariffs thereon are in the case of cotton goods considerably higher, and in the case of artificial silk goods vastly higher, than five years ago, and this increase was, as regards cotton goods, little affected, and as regards artificial silk goods unaffected by the Ottawa Agreement. In fact, we consider that the Ottawa Agreement, save for the doubtful possibilities of appeal to a Canadian Tariff Board, stereotyped the increased tariffs and gave them a sanctity they did not previously possess."

AFTER TEN MONTHS.—The *Financial Times*, to its credit, made a further inquiry into the matter, and in its issue of September 14th, more than a year after the Ottawa Agreement with Canada was signed, and fully ten months after the *Economist* had published the list of duties which I quoted earlier in this section, it published the following particulars of duties, *exclusive of the heavy dumping duty*, levied on British textiles:

	Duties now payable, per cent	Duties payable in 1928 per cent
Unbleached cottons	25·14	12½
Bleached sheeting	25·74	15
White flannelette	26·47	15
Stripe flannelette	28·94	18
Dyed poplin	27·39	18
38-in. rayon and cotton lining ..	69·63	18
14-oz. Cheviot serge (wool).. ..	65·97	24·75
16-oz. suiting	76·04	24·75
24/5-oz. panting	61·28	24·75
30/2-oz. overcoating	85·18	24·75

THE OTHER AGREEMENTS.—I have devoted a lot of attention to the Ottawa Agreements because I regard them as the most important result, so far, of our adoption of a tariff system; and I have devoted a lot of attention to the Canadian and Australian Agreements because they are quite the most vital. As I have made fairly clear, we made a very poor bargain with these Dominions. And our Agreement with New Zealand was little less disappointing. When Mr. Forbes, the Prime Minister, was pressed in Parliament to explain exactly what the result was of his bargain with our Delegates, he made this emphatic statement:

"When one looks down the schedule and sees the substantial advantages given to the primary producers of the Dominion, one cannot but admit that the dairy farmers, the fruit-growers, the honey-producers, the pastoralists, and others are bound to benefit greatly under the Agreement. . . . I can assure honourable members opposite that the dairy farmers and others feel that very substantial advantages have been given them by Great Britain.

"And what are we giving them in return? We have been told here, hour after hour, that we are smashing our secondary industries and throwing thousands out of employment. The sky has been the only limit. But what does it amount to? We are taking 2½ per cent off the duty on confectionary, leaving it at 27½ per cent; and we are also taking something off apparel, hosiery and silk, and artificial silk goods, in doing which we have just anticipated what Parliament put into an Act to be done in April, while we are doing it in October. That is all the sacrifices that the secondary industries are asked to make for the very substantial advantages given to our primary industries—15s. a hundredweight on butter, and so on. We are asked to give away 2½ per cent on confectionery, and the honourable gentlemen opposite are so worked up about it that they declare that the whole of our secondary industries will be destroyed. They make themselves absolutely ridiculous in the eyes of the people by making such extreme statements."

Sir James Parr, President of the Legislative Council, confirmed the general impression conveyed by this

official statement with the words, "New Zealand is really giving nothing away."

This was made abundantly clear to Mr. Baldwin and his friends (who had, on their return, expressed such satisfaction with their handiwork) when New Zealand, in violation of the spirit of the Agreement, if not of the letter, lowered her exchange rate to such a level as to give her a better foothold in the British market and also, incidentally, to increase the Protection against British goods which her own producers enjoyed.

NEW ZEALAND'S GESTURE.—When, on July 12, 1934, the news came from Wellington that New Zealand was to reduce her tariffs against our goods, it was hailed as a "generous gesture" and a success of the Ottawa Agreement. But the artificial lowering of the exchange rate was equivalent to an all-round increase in the restrictions against British goods of fully 25 per cent, and the tariff reductions announced at this later date by no means neutralized this effect. Not until New Zealand reverted to her former rate of exchange could it be said that the restrictions against British goods entering the Dominion were lower than they were before Ottawa.

SOUTH AFRICA'S ACTION.—Our treatment from South Africa was no less disillusioning. It was apparently evident at once to our Chamber of Shipping that the Ottawa Agreements spelt danger. At all events, in January 1933 they sent out a Memorandum on the subject. Referring to the attempt at Ottawa to "drive trade into Imperial channels," the Memorandum stated:

"Tested both by tonnage entrances and earnings, we estimate that inter-Empire trade finds employment for only a little over one-third of the British tonnage available for overseas trade, and that that employment would not be substantially increased if the whole of the inter-Empire trade were reserved exclusively for British shipping. The remainder of such British tonnage—nearly two-thirds—finds employment in trade between the

Empire (including the United Kingdom) and foreign countries, or between foreign countries. Unless those trades are re-established, there can be no future for the British mercantile marine as it exists to-day. It follows, therefore, that the primary concern of the British shipping industry at the World Economic Conference must be the removal of trade barriers of every description that have played such an important part in bringing about the deplorable diminution in the world's trade, including that of the United Kingdom."

In September 1933 South Africa shocked us by entering into a bargain with Italy whereby she agreed to pay £150,000 a year to Italian shipping in return for a service between Cape Town and the Mediterranean. Speaking at Liverpool on November 24th, Lord Essendon declared that the Ottawa Conference had brought no benefit to the shipping industry of Great Britain. It was clear, he said, that there was to be no assistance from within the Empire, while nothing but harm could come from the resultant increase in restrictions outside the Empire.

Even India gained advantages at Ottawa without giving us anything worth while in return. We agreed to allow Indian pig-iron to enter our market duty-free (although our producers were finding it even more embarrassing than foreign pig-iron), and in return India agreed to give us a special low duty on imports of galvanized sheets—on condition that they were made of Indian material. The result of this pleasant arrangement was that we increased our purchases of Indian pig-iron—they reached the proportion of 90 per cent of our total imports within less than a year, compared with 18 per cent before Ottawa—while our exports of galvanized sheets to India declined owing to the manufacture—another breach of the Ottawa spirit—of galvanized sheets which was developed in India. Similarly, our exports of tinplates to India declined as a result of the artificial stimulation of tinplate production in India under the wing of a high tariff.

CONCLUSION.—We made a bad bargain at Ottawa. The Agreements are bad business both for ourselves and for the world. Sectional interests benefit at the expense of the many. We suspected it when the news of the pacts first reached us. We knew it soon after. Within a year everybody who had studied the course of events knew it.

Ottawa is the principal result of our Government's tariffist policy. In an admirable article in *Lloyds Bank Review* in October 1933, Mr. H. V. Hodson summed it up fairly in these words:

"The Ottawa Conference must be counted as part of a gradual damming of world trade through measures of economic nationalism. . . . The Agreements, frankly, have left rather a bad atmosphere round the Empire. Vested interests, such as always flourish behind tariffs, are notoriously compact and powerful in propaganda. In certain Dominions the less scrupulous of such interests have not hesitated to play upon any kind of anti-British sentiment. The fact is that in the Dominions, as in this country, the conclusion of long-term written agreements for preferential trade has pitched the whole question of Empire into the dusty arena of party politics. The cries of the industries affected by tariff adjustments in the Dominions that the employment of thousands has been sacrificed for the sake of the British manufacturer who sweats his work-people will long reverberate. Governments and individuals have felt aggrieved at the slowness or half-heartedness with which in some cases promises given at Ottawa have been carried out."

CHAPTER XIV

AGRICULTURE AND QUOTAS

A FEATURE of the "National" Government's Protectionist policy has been the adoption and extension of the Quota system. The Government adopted this method of limitation for two very good reasons:

1. Mr. Runciman had given his assurance at the time of the General Election that he would not tolerate the taxation of food supplies (and Mr. Runciman was now an important member of the Government):

2. Direct taxation of the people's food, with accompanying higher prices, would have made the Government extremely unpopular. Although Mr. Runciman had described the quota system as "the curse of Europe," he had not pledged himself to withhold support from the adoption of the system in Great Britain.

These quotas were designed to give the farmer Protection. If other industries were to receive Protection, why not agriculture? The tariffs that had been imposed on manufactured articles, raw materials, and feeding-stuffs had not helped the farmer: they had handicapped him. Something had to be done about it. *But when the farmer has been suffering because prices are too low, and measures are introduced to relieve his sufferings by giving him higher prices, somebody has got to pay them. Our short experience of the Government's policy has made it clear that in so far as the new quotas have helped some farmers they have done so at the expense of the consumer.*

ARTIFICIAL SCARCITY.—Quotas are designed to force prices up by creating artificial scarcity. But wherever this policy had been put into operation—and it had been widely tried in recent years in other couotries—consump-

tion had declined. The only healthy way to make production profitable was to increase the demand for the produce —or rather, at a time when consumers were sadly in need of the produce, to make their demand effective. Consumers could only afford to buy the produce they needed if they could exchange the products of their own labour for it. Clearly, the cure for unprofitable production was to remove the obstacles which stood in the way of the exchange. But, instead of studying the problem from this point of view, our Government proceeded to set up elaborate and expensive machinery to produce high prices by the bad old method of restriction.

THREAT TO INTERNAL TRADE.—Let it be clearly understood that the restrictions which quotas involve do not apply only to the exchange of goods between nations; they apply also to the exchange of goods between producers inside a country. The machinery which the "National" Government has set up imposes severe restrictions on internal trade. If the tendency carries much further we shall be fighting, not for Free Trade between nation and nation, but for Free Trade between county and county, between town and town, between industry and industry, between consumer and consumer. Indeed, in some cases, the fight is already on.

FOOD TAXES.—A straightforward tax on food would be less obnoxious than this method of protecting producers by means of quotas. A tax on food, by raising the price, restricts imports. A quota, by restricting imports, raises the price. Whichever way you take it, the consumer is taxed, only in the former case he is able to see what is happening. But that is just what the Government did not want him to see, hence the quotas. And when the quotas are extended to home production as well as imports, the burden becomes all the greater.

The Wheat Act was the Government's first effort to

grant Protection by indirect means. Then followed a succession of Acts regulating supplies of such important foodstuffs as bacon, meat, milk, potatoes, and fish.

THE WHEAT ACT.—The move to secure Protection for agriculture centred round wheat. Yet wheat comprised only between 3 and 4 per cent of our total agricultural production, and less than half of it was of a kind suitable for human consumption. Farmers bought five times as much wheat as they grew, but they supported the campaign in the hope that it would make it easier subsequently to secure Protection for oats, barley, and the rest.

Wheat-growers, then, received Protection. They were guaranteed a price nearly double that which they had been receiving for some months past. In a short time the subsidy amounted to approximately 25s. 6d. for wheat worth only 19s. 6d.! The millers were compelled to buy certificates to cover 15 per cent of their consumption of wheat, and they were required to pay the guaranteed price on that 15 per cent. It did not matter whether they *used* British wheat up to 15 per cent, so long as they paid for that proportion of their consumption at the guaranteed higher price. It did not matter to the wheat-growers whether their wheat was used for milling purposes, so long as they got their price for it. They could go ahead and produce wheat with the comfortable assurance that they were to get their guaranteed price for as much as 27,000,000 cwt. *The cost during the first year was £4,500,000.* It would have been more if the growers had produced their full quota.

This amount was paid in the first place by the millers, and ultimately by the consumer. The Act came into operation on June 19, 1932, and 2s. 9d. was added to the price of every sack of flour. Bread was raised in price accordingly. At the end of the first year 20,330,000 cwt. of

millable wheat had been sold by the protected British growers. A month later the levy on every sack of imported flour was raised to 3s. 6d., and later to 4s. 6d.

FLOUR MILLS CLOSED.—On February 17, 1934, in a letter to the *Yorkshire Post*, Mr. Walter Higson, managing director of Messrs. E. & W. Higson, Ltd., of Liverpool, said:

"For a considerable period we have been heavy users of imported flour of a soft type which cannot be matched by the home millers. On the basis of the prices ruling for this imported flour, we have been able considerably to extend our operations and increase the number of employees in our factories in Liverpool, London, and Manchester by 400 per cent. In the event of any further duty being placed on these soft flours of the imported type, it would be impossible for us to maintain anything approaching the same volume of trade, and therefore we should be reluctantly compelled to dispense with the services of at least two hundred of our employees.

"During the recent closing of the mills in the North-Western area for one week, we are given the information that 27 mills were closed and that the number of employees affected for the period was 1,700. Therefore, if we are compelled to dispense with two hundred employees, this is something in the nature of the closing of four mills.

"This imported flour has enabled us to offer many of our productions at about 60 per cent below the retail prices formerly in operation. Many of our products are being retailed at 2d. per packet, and the price prevailing formerly was 5½d. per packet."

THE AGRICULTURAL MARKETING BILL.—The passing of the Agricultural Marketing Bill cleared the way for this all-round Protection. The Act came into operation in July 1933, giving the Board of Trade power to regulate imports of any agricultural product by means of quotas, and also to control the sale of home products. This was no purely emergency measure. "The policy of quantitative regulation of supplies," declared Mr. Elliot,

the Minister of Agriculture, and the prime mover in the new policy, "is not merely an expedient for meeting a crisis. It has come to stay."

The avowed object of the new Act was to raise prices. "We may do ill or well," said Mr. Elliot, "but we are sincerely tackling a very great problem. If fortune smiles on us, we shall have done something really great. If we fail, we have tried." It was all to be done by restriction, regulation, control of imports and production. There was no attempt to tackle the "very great problem" at the right end—no attempt to make it possible for consumers to pay for the goods they needed. As Sir Francis Acland, himself an experienced farmer, said on March 10, 1933, in the House of Commons: "Farmers must be made to realize that what is wrong is that our consumers cannot afford to buy what we produce. Artificial attempts to raise prices are no permanent cure."

A MARKETING BOARD.—Mr. Elliot was deaf to such admonitions. A Marketing Board was established to draw up a workable scheme of regulation. All production had to have the Board's sanction, and farmers' accounts were to be open to inspection. A Consumers' Committee was established to reassure the public, and a Committee of Investigation appointed to examine the reports of the Consumers' Committee. The Government, it was announced, were not, of course, compelled to accept the findings of the Consumers' Committee if they in any way conflicted with the Government's determination to raise prices. The Consumers' Committee was appointed by the Government to see that the consumer did not have to pay high prices, but the Government reserved the right to ignore the Committee if it suggested that anything of the sort was happening!

Soon there were five Agricultural Marketing Schemes in operation. To call them "marketing schemes" was

both polite and disarming. They were primarily schemes to control supplies in the interests of one million producers at the expense of 40 million consumers. They affected £176 millions' worth of products. The total cost, according to Mr. G. Walworth, the Regional Officer under the Milk Marketing Scheme, was equivalent to £5·7 per acre of farming land. But Mr. Elliot, who must have been aware of this, was in no way alarmed. "*We have taken drastic steps,*" *he declared on December 4, 1933,* "*but they are nothing to the steps we are going to take. As the road notices say, 'You have been warned.' This movement will not stop until we have had a lot of terribly nasty food at extremely high prices.*"

THE BACON QUOTA.—The worst of the Elliot schemes is the Bacon Quota. A Pig Marketing Board and a Bacon Marketing Board having been set up, the high-price policy was allowed to rip. Imports were restricted, and home producers were encouraged by high prices from the bacon curers. They received so much encouragement that the Board's calculations that contracts would reach £3 millions were rudely upset. They surpassed this estimate by 70 per cent, and the curers, who had been paying the high price ordered by Mr. Elliot, were faced with a heavy loss. But of course the Government could not allow their allies to suffer. They accordingly arranged to lend the curers enough money to cover their losses. This loan was to be repaid, but *how* was not made clear. The impression gained ground that it would not be repaid at all. If the curers were to be allowed to get back their losses by maintaining the price of bacon while paying less to the pig breeders, the whole object of the scheme, which was to raise the price to the breeders, would be sacrificed. If, on the other hand, the curers were to try to recover their loss by charging higher prices still for bacon, the public would stop buying it.

As it was, the price of bacon had risen from 53s. per cwt. to 90s. per cwt. in a little over a year. Consumption had declined. *Imports from Denmark had fallen, but the price we were paying for the reduced quantity had risen.* In 1932 we paid Denmark £20,941,000 for 7,670,000 cwt. In 1933 we paid £19,124,000 for 5,524,000 cwt. We were putting money—15s. a cwt. to be precise—into the pockets of the Danish producers of bacon instead of into the pockets of our own breeders of pigs!

Accordingly, it was decided that imports should be reduced a further 16 per cent in November 1933, by an additional 7 per cent in March 1934, and a further 3 per cent in June. This plan broke down with the failure of farmers to guarantee a sufficient supply of bacon pigs, and on March 26, 1934, Mr. Elliot was compelled to increase the import quota for the first half of the year. On March 20th, at the annual meeting of the Home and Colonial Stores, Ltd., Sir James Martin told shareholders that the bacon scheme had reduced their profits by £150,000, and that this was due to decreased consumption caused by high prices.

On April 12, 1934, the Scottish Provision Trade Association, in a letter addressed to the Government, stated that the Bacon Quota was inflicting "widespread hardship and injustice on many sections of the community, and most severely and harshly on the great mass of industrial workers throughout the country. . . . This country paid in 1933 to foreign producers no less than £10 millions more than it required to do for bacon and ham."

MEAT CONTROL.—Under the Ottawa Agreements we agreed to restrict imports of foreign meat, and the Dominions agreed, for purposes of price-raising, voluntarily to restrict their exports to this country. Imports were to be cut down by from 10 to 20 per cent. It soon became clear that this was going to produce a glut of

meat abroad which would drive world prices still lower. But our big meat trusts, while able to obtain their supplies at low prices. would be enabled by the artificial scarcity in the home market, to make handsome profits at the expense of the consumer.

The average price of New Zealand frozen mutton in 1932 was 2·92 shillings per 8 lb. The average price in 1933 was 3·2 shillings. This rise of fully 3d. in the wholesale price naturally led to a rise in the retail price. A rise of 1d. a lb. on foreign meat supplies alone, quite apart from Dominion and home supplies, is equivalent to an increased profit to the meat trusts of £6 millions. And as the price of Dominion and home meat naturally rose in accordance with the foreign price—and in accordance with the Government's plan—the total cost to the consumer was estimated at £18 millions a year. Mr. Arthur R. McDougal, the well-known Scottish farmer, commenting on the situation, said:

"History is strewn with the failures of Governments and speculators to stabilize prices and restrict supplies. To talk of a surplus supply of meat is folly and worse in face of the fact of nearly three million unemployed and probably fifteen million not getting enough meat. The meat quotas mean in reality that thousands of tons of meat will be destroyed. . . .

"If, as the Government alleges, and as many of us know, retail prices have been excessive, it should see to it that the Food Council is given powers to deal with profiteering in meat. Nothing would clear the glut more quickly than a reduction in retail prices, which would benefit consumers, while the big turnover would more than compensate the retailer. A clearance thus effected would at once restore wholesale prices to the farmer and put the trade on a sound and healthy basis.

"Mere restrictions will simply dam up supplies and create an unsound position, benefiting few, inflicting needless hardship on consumers, and ultimately ruining many farmers, both here and abroad. . . . The wheat and meat quotas will cost, perhaps, £23,000,000 next year, and all of it will go into private pockets."

Mr. McDougal's estimate of the cost of the wheat and meat quotas in 1933 must have been very near the mark, wheat costing the best part of £5 millions more, and meat at least £18 millions.

THE BEEF SUBSIDY.—On July 11, 1934, a "levy with restriction of imports" was announced as a further aid to the home meat producers, who were finding Empire competition no less embarrassing than foreign. A subsidy of £3,000,000 is to be paid to the producers, to be repaid out of a levy on imported beef. The burden of the levy, it is clear, will fall on the poorer classes of consumers who buy the lower-quality imported beef. As the *Economist* of July 14th put it, "The rich consumer of home-produced high-quality beef, as well as the farmer, will be subsidized out of the pocket of the relatively poor consumer of imports —a particularly vicious example of 'regressive' taxation."

THE MILK SCHEME.—The Milk Marketing Board established in July 1933 was authorized to take control of business in the home market worth £55 millions. It was established in October 1933. From then on, no milk could be sold without permission of the Board, and a price was fixed by the Board, regardless of consumers' ability to pay it. Producers were made liable to heavy fines if they contravened the new legislation; and several distributors were penalized within a very short time for selling milk to needy consumers at less than the Board's fixed price. Any farmer who sold milk at 5d. a quart when the fixed price was 6d. was penalized. The fact that many consumers who could afford to buy his milk at 5d. could not afford to pay 6d. made no impression on the new milk dictators.

Even the producers were disillusioned. "We were told that it was a producers' scheme," declared Mr. S. E. Odgers, chairman of the Exeter and District Dairy Farmers' Association, on December 4th. "We were told

that the whole object of the scheme was for the producers to receive a bigger share of the amount of money paid by the public. *The public pay more money, and we get less.*"

It was the old, old story. Prices are low because effective demand is restricted. Raise prices, and effective demand again declines. The few who can afford it pay the increased prices. The many who cannot afford it have to cut down their supplies. This was what happened with milk. There was a loss on the total turnover, despite the fact that the producers were getting more per quart.

By the beginning of January 1934 the staff of the Milk Board numbered 400. They were remunerated by the taxpayer. On January 12th, in their annual report, the Farmers' Union of the West Riding of Yorkshire stated that "so far the Milk Scheme in this area has been more than a failure: it has been a disaster."

ANOTHER SUBSIDY.—Something obviously had to be done. Mr. Elliot got to work, and on February 22nd a White Paper was issued giving particulars of further measures to be taken in an attempt to save the situation. The producers were to receive a guaranteed price sufficient to make cheese production pay in competition with the cheese imported from the Dominions. It was, in effect, a subsidy designed to protect the British cheese producer against Empire "dumping"! But "subsidy" is an ugly word, so it was called a "loan." When Sir Herbert Samuel asked what the prospects were of the loan being repaid, Mr. Elliot replied that he "dare not prophesy." It would, he added, "depend on the level of prices in the world over the next four years."

The one thing that was clear was that £3,000,000 of the taxpayers' money was to go to enable the cheese producers to pay the milk producers the price that the Government had guaranteed, while a further £500,000 was to be spent in advertising milk.

As a measure of Protection for a section of the community it was indefensible. As a measure for the promotion of public health the expenditure of the additional half-million might have been justified; but that this aspect weighed little with the Government was indicated by the fact that they were entirely unmoved by the announcement that the increased price of milk was to cost the hospitals £100,000 a year. What it was to cost the community as a whole could scarcely be estimated, because many consumers of milk simply could not afford to pay the increased price (which was to work out at 4d. a gallon) and would therefore cut down their supplies. The advances to enable the cheese producers to pay the guaranteed price dated from April 1, 1934, and were to last for at least two years.

On March 26th, the same day as Mr. Elliot announced the failure of his bacon scheme, the Milk Marketing Board revealed that it had been found impossible to work the high-price plan which I have outlined. The Consumers' Committee had discovered—what was obvious to milk users all along—that the retailers had been guaranteed a price which the public could not pay. A minimum price was now recommended, which was to vary according to the needs of the various districts. The Marketing Board adopted this recommendation. Thus the price-fixers had been driven to recognize the truth of the relation between supply and demand which is the basis of Free Trade doctrine.

SEA-FISHING ACT.—If you give Protection to wheat, bacon, meat, milk, and sugar, it is difficult to stop. What justification is there for excluding fish, for instance? The Sea-Fishing Act empowered the Board of Trade to regulate the landing of foreign-caught fish (although the trade had persistently pointed out that its market depended on foreign supplies). The Act also decreed what size and

quality of fish our own catchers were to take and land, while nets of a certain specified mesh only were to be used. Fish prices, of course, went up with the restriction of supplies.

POTATOES AND POULTRY.—The Potato Marketing Board was set up in December 1933, and a similar scheme to protect the poultry farmers was projected two months later. And it was clear that Mr. Elliot was by no means finished. There was no turning back. He had not troubled apparently to study the experiments in quota restriction which had been made in other countries. He seemed to be happily oblivious of the fate which had met similar efforts to stimulate production by the arbitrary fixing of prices which consumers could not pay. He was in no mood to heed the warning of Dr. Benjamin Anderson, America's leading authority, who said:

> "Price-fixing combines and quota agreements, though they may temporarily bring profits and a sense of security to particular industries, in the long run are the enemies even of profits, since they prolong periods of depression and prevent necessary readjustments, and spoil the all-important price mechanism, the function of which is to protect and restore industrial equilibrium."

CHAPTER XV

IRON AND STEEL

OF all the industries whose interests were canvassed during the Protectionist campaign the iron and steel industry got most attention. And as one of our greatest staple industries it certainly had claims which would have justified an agitation had the cause been a better one.

Among the main reasons why Free Traders fought against the granting of Protection to iron and steel, there was the fact that the industry was a predominantly exporting industry so far as its international trade was concerned, standing to lose more by retaliation than it could possibly gain even if the whole of the competing imports were shut out by tariffs; there was the fact that the users far outnumbered the producers and would be severely handicapped if their supplies were restricted or made dearer; and there was the belief, confirmed by the experience of Protection in other countries, that if the iron and steel industry got the Protection it wanted it would indefinitely postpone the reorganization which had, it was clear to all, become necessary.

In an earlier chapter I gave a number of examples of the effect of Protection on iron and steel. Here I must deal particularly with the influence the tariff has had in promoting or retarding necessary reorganization in the industry.

PROTECTION OPPOSED.—It may be recalled that the industry received the very handsome Protection of a 33⅓ per cent tariff on condition that it put its house in order. But the tariff was not granted without keen opposition displaying itself. On April 4, 1932, the Iron,

Steel, Tinplate, and Metal Merchants' Section of the London Chamber of Commerce submitted a Memorandum to the Advisory Committee, in which the following statements occurred:

"Sheet bars, produced abroad, are re-rolled into sheets, galvanized in Great Britain, and exported in the form of galvanized corrugated sheets, to all markets of the world. If a duty without drawback is placed upon the sheet bars which are rolled and worked up in Britain, where a substantial amount of British labour and British capital is employed, it is possible that a considerable amount of the world's orders will be diverted to foreign countries. An increase in the price of raw material and semi-raw material may mean all the difference between obtaining an order and losing it. There are peculiar circumstances in special trades—for example, the tube trade. Welded tubes in many cases are made from imported strip, and one reason why this imported strip is used is that it is considered by manufacturers that Bessemer steel is a better welding material than strip made by other processes. There are no Bessemer works operating in Great Britain."

Traders and users alike were assured that the industry could very well meet all demands. If it did not do so the Protection would not be continued. The industry, we were told repeatedly, had only been waiting for the security which a tariff would provide to reorganize.

VALUE OF FOREIGN SUPPLIES.—But there was an unaccountable delay. In December 1932 Sir John Hunter, chairman of Messrs. Sir William Arrol & Co., and Director of Steel Production during the War, wrote a letter to *The Times*, in which he said:

"My experience as a consumer who buys nothing but British steel is that the British steel maker has done nothing to help British bridge-builders and structural engineers to keep foreign markets, and therefore nothing to help himself in this direction. He has exacted the full home controlled price at all times until the last few months when—it being then too late—he offered the finishing industry a small fund hedged about with conditions which make it difficult to operate. As a consumer of both home

and foreign steel in other directions I can only say that had it not been for the latter, the business of these companies in the home and foreign markets would probably have gone to the Continent."

USERS OUTNUMBER PRODUCERS.—It was easy to envisage the benefit which a tariff brought to the producers who were finding foreign competition embarrassing. It was not always so easy to visualize the handicap which fell upon users. They were scattered all over the country. They were not a solid block like the producers, capable of speaking with one very loud voice. Yet users stood to lose far more than the producers stood to gain. The proportionate importance of the two interests was set out in this way:

> *Three hundred men manufacture 1,500 tons of bars a week: 1,500 tons of bars give employment to 1,440 men for one week, producing 1,200 tons of tinplates; 1,200 tons of tinplates give employment to 13,500 workers in the finishing trades in one week. Care must be taken that in trying to secure the employment of the 300 steel workers, the employment of the 13,500 finishing workers is not imperilled.*

TAX ON RAW MATERIALS.—That the users were injured by the new Protection there could be no doubt. One manufacturer of tubes, writing to say that he could not accept any further orders at the old price, informed the agent that "we regret having to write you on these lines, but the import duty on our material which we are having to pay makes business on the present basis quite unprofitable." This was in September 1932. On March 18, 1933, in a letter to the Press, Mr. J. H. Seager, of the Metal Trades Association, stated:

"Formerly the British manufacturer could buy steel sheets, which are his raw material for manufactured goods, at £5 per

ton delivered. Directly the tariff of $33\frac{1}{3}$ per cent was imposed the manufacturer found that he had to pay £8 per ton for the same quality of raw material, which is at present demanded."

And a few days later he contributed this further instance:

"What is the result (of securing a prohibitive tariff on tinplate steel bars)? To give one example, for years we supplied the Spanish ports with tinplates for their tinning industries. That is now a thing of the past. Italy, seeing how we had handicapped ourselves for the benefit of the iron and steel combines, admits this raw material free of duty, and is now supplying Spain with the tinplates."

SHELTERING BEHIND THE TARIFF.—Even Protectionists began to display anxiety at the failure of the industry—and others enjoying similar privileges—to reorganize. Sir Herbert Austin apparently met with early evidence that manufacturers, having got what they wanted, which was a monopoly in the home market, were lying back and taking easy profits. At all events, on May 9, 1932, in a speech at Leeds, he declared:

"The danger lies in using the duties merely as an umbrella to keep the wind off a worn and tattered industry. If behind the tariff wall rings are formed with the intention of reducing competition to an absolute minimum and keeping up prices, then I say most emphatically that our change in fiscal policy will be the beginning of the end of British industry."

It was beginning to look like it.

The Advisory Committee were not unaware of the danger. When on June 14th, the duty of $33\frac{1}{3}$ per cent on pig-iron was extended, the Committee said:

"We are fully alive to the danger of adverse reactions on some sections of the iron and steel industry from a marked increase in the price of pig-iron. It would be unreasonable to expect any general guarantee from the industry that prices will in no circumstances be increased during the period of the temporary duty; but we propose to watch the position, and we shall not

hesitate to recommend the immediate removal of the Additional Duty, should it appear to us to be operating unfairly against the users of pig-iron."

A CONDITION OF PROTECTION.—To do the Committee justice, they did everything in their power to make the high Protection which they granted to the iron and steel industry conditional upon the industry's reorganization. Sir George May, chairman of the Committee, made their position quite clear.

> "The industry," he said, "cannot be prosperous unless it can sell its products, and it can only sell its products if the industries using them are flourishing. Those industries are very largely export industries, and can only maintain and develop their exports if they can be assured of getting from the iron and steel industry the requisite material of the right quality at the lowest possible price."

Protection was being granted, he said, to enable the industry to reorganize, so that it could meet the requirements of the using industries in all these respects. Protection would only be continued if evidence was forthcoming that a genuine effort was being made to fulfil the conditions.

THE COMMITTEE'S ULTIMATUM.—The industry for a time made a show of taking the Committee seriously. It appointed a committee of its own to study ways and means of bringing about the desired end. And some months later they propounded a very vague "plan" designed to produce an "adjustment of supply and demand." This "plan" was so obviously never intended to be put into operation that Sir George May was compelled to issue what savoured very much like an ultimatum. On January 24, 1933, he told the industry:

> "I think you are —— fools if you don't put your house in order. The thing you have got to remember is what you are up against. When you consider the other steel companies of the

world, and how they are putting their houses in order, you will realize that you have not got a light job. We have the National Committee, the District Committees, and the Executive Committee, and I should hate to think that they are not going to produce something in the nature of a scheme which will be accepted by the Government.

"The British iron and steel trade have got to put up a scheme which holds out the promise of successful reorganization of the iron and steel industry to compete with the very grave and increasing competition that they are going to meet with in the future. You people have got to do it yourselves, and if you don't do it for yourselves then someone else is going to do it for you; and if someone does, you will not be in the same happy position as if you had done it for yourselves."

That was straight enough! Would it have any effect?

A PLAN AT LAST.—A few weeks later, evidently a trifle anxious lest the tariff would be reduced as a punishment, the industry tabled a scheme which the Advisory Committee accepted. It provided for the establishment of an Iron and Steel Corporation comprising all the representative branches of the industry. Its avowed object was to "secure the progressive concentration of production in the more efficient plants" and "to promote the export trade." The scheme was only a first step. As Mr. Neville Chamberlain commented: "Much remains to be done before the industry can be properly equipped and organized. The scheme now presented may perhaps more correctly be described as a scheme for establishing the machinery whereby reorganization of the industry may be carried out, rather than the scheme itself."

This was not very encouraging, and when it was revealed that the scheme did not even have the backing of the whole industry its significance began to fade. Writing to *The Times* on April 12th, Mr. H. Spence Thomas, the South Wales authority, remarked that members of the industry were astounded at the audacity

of the National Committee in advancing a scheme which had not been discussed by many of the trades concerned. The scheme, he said, gave no guarantee that the conditions laid out by the Advisory Committee would be fulfilled. Indeed, the scheme specifically excluded from representation upon the national body the three chief users of iron and steel!

REORGANIZATION POSTPONED. — Nothing more was heard of the plan for reorganization for fully two months. On June 16th, at the annual meeting of Messrs. Guest, Keen & Nettlefold, Ltd., Sir John Beele complained that the 33⅓ per cent duty was inadequate. Representations had been made to the Advisory Committee, he revealed, but they had made a "most unfortunate" decision and refused to give the industry more Protection. This refusal, he declared, made it impossible for the industry to reorganize. The scheme which had been advanced two months before might profitably be regarded as dead. The industry, he said, should have declined to proceed with the task of reorganizing until they had been given security.

THE INDUSTRY BLUFFING.—It was now clear that what Free Traders had feared was indeed taking place. The iron and steel industry—or that part of it which did not want to work too hard to earn its profits—was bluffing. It had undertaken to reorganize. It had not reorganized. And now it was angling for more Protection without reorganizing. It was aware that if it could not satisfy the Advisory Committee that progress had been made, its Protection was due to be withdrawn in October 1934, but no doubt it imagined that the Advisory Committee would not dare to carry out their threat.

In October of 1933 great capital was made out of the announcement that the British Iron and Steel Company, Ltd., was going to promote extensions at Dowlais at a

cost of £2,500,000, giving work to several thousand hands. This, surely, was a triumph for the tariff! But after jubilation had reigned for the week or two, the announcement took on rather a different colour. *It was explained that the enterprise could only go ahead if assurances were received that Protection should not be withdrawn for twenty years!*

MR. RUNCIMAN'S ASSURANCE.—One looked to someone in authority to call this bluff. The first person to whom the opportunity—one might almost say the duty—fell was Mr. Runciman, President of the Board of Trade. On November 10, 1933, he addressed the British Steelworks Association. Here was a grand chance to support the Advisory Committee in its difficult task; and no one could speak with more weight than Mr. Runciman, who had so often warned the public that this sort of thing—procrastination, log-rolling, bluff—would be the inevitable result if industries were encouraged to look to tariffs for assistance. What, then, did Mr. Runciman say to the industry? He congratulated it on the benefits it was enjoying from the tariff, which, he added, was "likely to be continued for a long period"!

Some, possibly many, of Mr. Runciman's old Free Trade friends had, some time before, reluctantly come to the conclusion that he had betrayed them. Had he, they might have been forgiven for asking themselves on reading this assurance to the steel makers, now betrayed the Advisory Committee? The Committee had stated quite clearly that unless satisfactory evidence of reorganization was forthcoming the duties would be withdrawn in October 1934, yet here was Mr. Runciman informing the industry that the likelihood was that the duties would be continued for a long period!

On condition, of course—but not, be it noted, on condition that the industry should reorganize. (That was

the Advisory Committee's condition, not Mr. Runciman's.) The condition was something else altogether. Here are Mr. Runciman's words. (The italics are mine.)

> "I can make no promise as to what *future Governments* may do, but I think it is only fair to you to say that *the present Government* has no intention whatever of withdrawing from you the support which the import tariff gives you."

In effect: "Be good, vote for us, and you will get what you want!" Regardless, apparently, of the Advisory Committee, whose job it was to recommend whether the industry should get what it wanted or not! Here, in fact, was the pernicious appeal to sectional interests which Free Traders feared. Yet the public had been warned against it.

> "If you direct the minds of our manufacturers to Parliament for assistance; if you teach them to turn to elections and by-elections for the means by which they are to secure support; if they are to imagine that it is to be in the lobbies of the House of Commons, and in the committee rooms upstairs, and in the refreshment rooms downstairs, that the tariffs of this country are going to be made, then I say you will demoralize industry and commerce. If there were no other reason in the world for believing in Free Trade as a wholesome political system, it is the preservation of the purity of our Parliamentary life."

Mr. Runciman's own words! We little thought when we listened to them in November 1930 that they were warning us of the political activities of a certain President of the Board of Trade in November 1933!

The industry took full advantage of Mr. Runciman's assurance to defy the Advisory Committee. On January 9, 1934. Sir William Larke, director of the National Federation of Iron and Steel Manufacturers, declared that no reorganization scheme had yet matured. On February 23rd the Federation met to discuss the position, when they decided to postpone reorganization. The

Financial News had no hesitation in describing the meeting as a fiasco.

SURRENDER.—In May the Tariff Committee surrendered. They recommended that the iron and steel duties should be extended indefinitely in order that the industry might proceed with its latest plan, which involved a reconstitution of the Iron and Steel Federation. *The Times*, not unnaturally, approved the decision. "Nevertheless," it remarked, "the other side of the bargain has not yet been fully carried out. . . . The type of reconstruction which the more progressive members of the industry envisaged has to a great extent been abandoned, . . . one by one the teeth and claws have been eliminated from the scheme. . . . It appears on the face of it to have been so emptied of precision that in practice it may mean anything—or nothing."

To Free Traders it meant one thing, and one thing only; it meant that the industry, now assured of Protection indefinitely, would agitate for increased duties. And so it proved. On May 30th the Tariff Committee gave notice of applications for increased duties. The increases were granted.

And still no reorganization!

CHAPTER XVI

SHIPPING

THE Protection complex spread even to our shipping industry. But it is only fair to say that while individuals here and there fondly imagined that we could assist shipping by imposing restrictions on the foreigner, the bulk of the industry stood firm and refused to be carried away by any such delusion. Shipping, of all British industries, stands to lose most by trade restriction, and, of all the shipping industries in the world, ours stands to lose most in a war of subsidies or other State aids.

The argument, which has cropped up from time to time, that we should tax all British goods carried on foreign ships, is met with the reminder that we carry far more foreign goods in British ships than the foreigner carries British goods in his ships. If we penalized our traders for using foreign ships, foreign Governments would have far bigger scope for penalizing traders for using British ships. For every handicap we were able to place on foreign shipping, the foreigner could place a double handicap on British shipping.

HIT BY RETALIATION.—Even without a resort to direct Protection of shipping by such foolish means, we have learnt how the foreigner can retaliate against our tariff policy at the expense of our shipping. France, for instance, as a measure of retaliation against the duties we had placed on imports from France, decreed in 1932 that all coal entering the country must be carried on French ships. The result, it was estimated, was the laying up of 180 British ships which formerly carried coal to France, and 2,500 unemployed workers. Whatever the reason or excuse for tariffs, declared Lord Essendon,

head of Messrs. Furness, Withy & Co., on July 20, 1932, "their effect is most harmful to shipping."

NO BENEFIT FROM OTTAWA.—We should note, too, Lord Essendon's views on the effect of the Ottawa Agreements. Speaking at Liverpool on November 24, 1933, he said that the Agreements had proved of no benefit to British shipping. There had, he said, been no assistance to shipping within the Empire, and no marked increase in trade, while shipping outside the Empire had been seriously prejudiced by the restrictions, duties, and quotas imposed as a result of Ottawa.

On February 6, 1933, Mr. Hugh Lewis, the Birkenhead authority, addressing the Junior Chamber of Commerce at Liverpool, made a speech which deserves attention, particularly the following passages:

"Those countries with high Protection had lost their shipping prosperity. . . . Now we were being invited to take comfort in the destruction of a great trade, to wit, our import trade, whilst in fact that trade gave our people more employment than even our export trade, and contributed by far the heavier portion of our national income. It was to obtain the imports that we produced the exports. . . .

"The outlook was very black for the port of Liverpool. It was not only that our shipping had produced in invisible exports within recent years over £300 millions per annum, reduced in 1932 to £60 millions, but also that many millions of people at the different shipping centres were dependent entirely upon that—our greatest industry. . . . The main cause of the decrease in our seaborne trade was the adoption of tariffs in one country after another, our own included. The Ottawa Agreements were the latest and perhaps the worst obstruction to Liverpool shipping."

DOMINION PROTECTION.—Ten days later, on February 16th, at the annual meeting of the Chamber of Shipping, came another notable pronouncement from Mr. J. W. McAlister, the new President, who said: "The level of tariffs still maintained against the United

Kingdom by some of the Dominions is such as to represent a very grave impediment to our own trade, to theirs, and to world trade. Many of our most patriotic members are gravely disturbed at the prospect of maintaining high tariffs against other countries upon whose trade we depend, while the Dominions protect their trade heavily against us. Past experience gives little encouragement to expect real reductions of tariffs through bilateral negotiations." On April 6th, at the annual meeting of the General Steam Navigation Company, the same authority declared that the import duties imposed in 1932 had seriously affected the company's business.

THE PARIS RESOLUTION.—Shipping opinion is almost unanimous against tariffs, and against the use of tariffs for bargaining purposes. The most notable of all the shipping pronouncements on the subject was the Manifesto issued by the great Conference of ship-owners held in Paris on December 7, 1932, for presentation to the nations attending the World Conference. It was unanimous, and I make no apology for quoting it in full:

"(1) In this acute economic crisis all nations should be invited to face facts and adopt a realist policy, as was done at Lausanne. The facts to be faced are that, in a world of plenty, civilization is being starved because the world market has been broken and is being destroyed. Without interchange of goods and services in the world market civilization could not have grown and cannot live.

(2) The world can either allow itself to slide back to a primitive life by reducing the standards of living in all countries, or it must formulate and respect the principle of the world market. Whatever the effect upon the internal life of nations of attempting to exist as self-contained units, it is obvious that, with the world so organized, there would be no place for shipping. For the shipping industry, the restoration of international trade is a paramount need.

(3) The principles of the world market are:

(a) The creditor countries must be prepared to receive payment for their debts as well as for their exports in goods

or service. The creditor country which maintains its exports and debt claims, and which prevents adjustment of its trade balance by refusing payment in goods and service, breaks the world market by depressing his debtor customer.

(*b*) Debtor countries must not exclude themselves from the world market by raising the level of costs of production (by inflated wage structure and prices).

(*c*) Trade barriers of all kinds, including artificial or stimulated production of goods or service, currency restrictions, international interference with trade, or artificial stimulants to commerce must be reduced and ultimately abolished as debtors' palliatives which have done more harm than good.

(*d*) The nations which are prepared to enter the world market on these terms should agree to enforce these principles by limiting their 'most-favoured-nation' treatment to those nations which observe such principles. The principle of equality of treatment should be secured on a basis of reciprocity.

(4) Failure to respect the principle of the world markets has halved the volume of international trade, and discrimination and uneconomic subsidies in shipping are rapidly destroying the basis of international ocean transportation, which is equality of treatment of the vessels of all flags in all parts of the world. Free access to an open freight market is essential to the prosperity of international commerce. But there can be no such market in any country which is discriminating in favour of ships under its own flag.

(5) In order, therefore, to establish and promote the acceptance by nations of the principles of the world market, including the removal of uneconomic subsidies and other trade barriers, all nations should co-operate:

(*a*) To work for the re-establishment of trade and the removal of all forms of trade barriers, including uneconomic subsidies; and

(*b*) To trade with each other in accordance with the principle of the world market.

(6) To secure effective support for the principles of the world market, nations should agree to limit their undertakings to give most-favoured-nation treatment to those which undertake to observe these principles, and to give one another equality of treatment in trade and shipping."

This was supplemented in November 1933 by the British Chamber of Shipping, who declared that "to the nations to which they belong, State-aided ships have no commercial value, whilst they are a standing menace to the freight market and hamper operations of all ships under their own and other flags operating on an economic basis."

HARMED BY TARIFFS.—Yet there was no move towards a saner policy. Certain interests, mostly unconnected with shipping, called for State aid for the industry in this country. The tariff and quota policies were pursued at the expense of shipping, and Mr. Baldwin, defending the Government's record in October of 1933, had to be reminded of the fact by Mr. William Ropner, of Messrs. Ropner & Co., the Hartlepool shippers. In a letter to *The Times*, on October 17th, Mr. Ropner said:

> "The depressed condition of our shipping is not entirely due to the policy of the Government, but the tariffs and restrictions to which Mr. Baldwin referred, which have apparently done much to restore prosperity to other trades, have had precisely the opposite effect upon shipping. Ship-owners are waiting in vain for some indication that an effort will be made to remove these obvious handicaps."

The same note was struck with rather more emphasis by Mr. J. B. Hutchinson, President of the Shipbuilding Employers' Federation, in a foreword to *Lloyd's List Annual Review* of 1933, when he wrote:

> "The mercantile work on hand at the beginning of the last quarter of 1933 was only one-tenth of the work available before the recent depression set in. I do plead, therefore, for a cessation of all this talk as if prosperity were already in sight. To describe the contracts recently placed or in prospect as constituting a boom, and to raise false hopes as to the benefit to be derived from them, is a distinct disservice to all connected with the industry."

Closely following this came the Report of the Liverpool Steamship Owners' Association, in which the following strong statement occurred:

"The imposition of discriminatory Customs duties on cargo imported into the United Kingdom in foreign ships is the most extreme form of discrimination that can be applied. It deprives the traders of the nation by which such duties are imposed of the advantages of a world freight market, and it exposes the ships of that nation to the risk of retaliatory duties in every foreign port they enter. It is difficult to imagine any single step more likely to block the restoration of world trade, or more likely to react disastrously upon the interests of British shipping."

In April 1934 it was announced that there were 316 fewer ships (of 1,687,167 tons gross) on our Register than there were three years before. The number of merchant ships launched in 1933 was only 108, the output being the lowest on record, and 54,579 tons less than in 1932. *The Chamber of Shipping Freight Index* revealed a decline from 85 in 1931 to 75·38 in 1933.

On July 3rd Mr. Runciman announced the Government's decision to assist tramp shippers to pursue a "scrap and build" programme, which they had said was impossible without assistance so long as their foreign rivals enjoyed State aid. A "defensive subsidy" was to be granted, and £2,000,000 was to be set aside for the purpose. As in the case of the iron and steel tariff, a condition of efficient reorganization was attached. Whether it would be fulfilled, time alone could show. The fear entertained by Free Traders was that this measure (totally inadequate, as it seemed to Protectionists) would prove to be but a mild beginning to a war of subsidies, which, as I have shown, would harm British shipping more than it would help it.

CHAPTER XVII

"DUMPING"

THERE have been many "dumping" ramps in this country since the War. In recent years they have followed one another in quick succession, culminating in the savage outcry against Japanese competition. When the campaign against Russian "dumping" was at its height, the Free Trade Union issued the following statement, which leaves little to be said on the question:

"WHAT IS DUMPING?

"Many people erroneously use the term 'dumping' to describe any form of competition which is inconvenient to some home producer; but a more scientific definition which Free Traders may accept is the importation into this country of goods produced in a foreign—including in the term an Empire—country at prices below the cost of production in that country.

"Owing to the fact that it is impossible to ascertain the cost of production of any goods in any foreign country, the quantity of goods 'dumped' within the terms of the above definition cannot be ascertained, but it is quite certain that it bears a very minute proportion to the total volume of our imports. It will be remembered that the Safeguarding of Industries Act of 1921, Sect. II, made provision for the hearing of Applications to the Board of Trade for the imposition of duties on manufactured goods stated to be dumped; that only two such Applications were considered; and that they were both rejected by Safeguarding Committees owing to absence of proof of dumping.

"There are two kinds of dumping, which may be termed 'dumping from strength' and 'dumping from weakness.'

"DUMPING FROM STRENGTH

"Dumping from strength is a form of commercial piracy, having for its object the destruction of the business of a competitor by unfairly underselling his produce. No Free Trader defends such a policy. Of course, examples of the practice of thus putting

competitors out of trade by Britons in our home market, and by Germans and Americans, f r instance, in the German and American markets, are quite common; but in spite of the keenest efforts of Protectionists to iscover one, no authentic instance has ever been disclosed of a deliberate attempt by a foreign competitor to destroy a British industry or branch of industry by dumping goods into the British market with that definite object in view.

"DUMPING FROM WEAKNESS

"We come, then, to dumping from weakness, the most common instance of which is to be found in the sale of bankrupt stock at unnaturally low prices. The object is not the destruction of competitors, but the disposal of the goods, under extreme pressure of some sort. If to sell certain goods abroad cheaper than at home be a crime, it is a crime of which few British exporters could state that they had never been guilty. Indeed, it is not untrue to say that British manufacturers have always been, and *still are, the greatest followers of this practice in the world.* It is a perfectly legitimate means of relieving congestion, and as such is universally admitted and practised.

"PROTECTION THE MOTHER OF DUMPING

"A very common instance of dumping from weakness is found in the sale by producers in protected countries to consumers in other countries of goods at uneconomic prices, with the definite object of maintaining unnaturally high prices for the goods in question in the home market. The object of Protection is to secure for producers high prices in their home market. This is effected by interfering, by means of tariffs, with the import of competing goods, so that the home consumer is placed at the mercy of the home producer who, rather than accept lower prices from his victims, prefers to sell his surplùs stock abroad at unremunerative prices. Practically all cases of alleged dumping are due to this cause, and many of them arise in the case of goods produced in Empire, as well as in 'foreign' countries.

"DUMPING COUNTERVAILS ITSELF

"Free Traders have no love for unnatural prices, whether they be unnaturally high or unnaturally low; but we contend that competition of the nature indicated generally injures, in the long run, the assailant more than the assaulted. This unfair

competition countervails itself. For instance, the foreigner—and the Indian producer, too—sends us 'unnaturally' cheap iron and steel; we retort by using it to produce and to send him cheap ships and machinery at prices with which he cannot compete. We import a certain quantity of very cheap food for men and animals (including such things as Australian butter and Continental grain), and our cattle and pig producers and poultry and dairy farmers are by it enabled to reduce their production costs and thus to increase their power of competition. We only buy these cheap goods because their use gives an advantage to their users.

"THE REPERCUSSIONS OF PROTECTION

"What are the only means which we could adopt to prevent this cheap importation, assuming it were really undesirable, which it is claimed it is not? Obviously, if we were to devise means to keep out goods at unnaturally low prices, those means must be even more effective in keeping out imports at natural prices. Our refusal to buy even unnaturally cheap materials and a definite policy of selling to our competitors British goods at unnaturally low prices would only result in diverting them into the markets of our own competitors abroad, and thus would supply them with an advantage which we would deny to British consumers in the profitable use of such materials."

JAPANESE COMPETITION.—Does the Japanese competition with which we have been faced during the past year or two constitute dumping in the true meaning of the word? *Protectionists have repeatedly been challenged to produce evidence that Japanese imports have been sold in this country at under the cost of production. No evidence has been forthcoming to prove that there has been dumping of Japanese goods in our market.*

The evidence that has come to light—although little of it has seen the light of day in our Protectionist newspapers—suggests that Japan's competition has not been unfair. On May 1, 1933, the case against Japanese competition was seriously impaired by the publication of the Report of the British Economic Mission to Japan. The

charges of dumping, said the Report, were without foundation. "No good, but possibly much harm, can come of the ascribing the success of Japan in foreign trade to unfair methods."

JAPAN'S JUSTIFICATION.—On July 1, 1933, Mr. S. Matsuyama, Commercial Counsellor to the Japanese Embassy in London, published a reasoned defence of Japan's trading methods. The facts presented (they received little publicity in the Press) have not been refuted. Points deserving attention are these:

> "Japan has a vital and efficient industrial organization, and that organization is pursuing its natural and healthy development. . . .
>
> "We obviously must export if we are to live. If all countries put up insurmountable tariff barriers against Japan, millions of people would starve. The same, incidentally, applies to Britain. She, as is well known, must export if her people are to live. It seems, therefore, a somewhat dangerous example for certain interests in Britain to cry for tariffs against Japan. . . .
>
> "Most critics of Japan take refuge in attacks on conditions of employment in my country—the wages paid, the hours worked, the housing of the workers, and so on. . . .
>
> "These attacks are usually founded on inaccurate or insufficient knowledge. . . ."

LEAGUE OF NATIONS' SUPPORT.—Mr. Matsuyama quoted the evidence of the International Labour Office to the effect that hours of work had greatly improved in Japan, and that they had come down from 16 a day to an average of 9 hours 8 minutes a day in the spinning factories. The Factory Act now covered nearly 90 per cent of all Japanese factories. The Japanese Government was co-operating with the International Labour Office in bringing about improved conditions. Even as they were, working conditions in Japan were good.

"Employers must pay compensation for accidents," said the Report, "and a complete national system of

employment exchanges has been established. The dormitory system is largely used in the large factories, especially for girls. The workers live in hostels near the factories and are catered for by the managements. The workers are adequately looked after, and the welfare work of many factories is admirable."

Mr. Matsuyama strongly resented the statements in certain of our less responsible Press organs that slave and child labour were employed in Japan. His country, he reminded us, was a twentieth-century country:

> "Its great cities, where the factories are situated, have wide streets with ferro-concrete buildings rising often to eight stories—and the streets, the great departmental stores and other buildings, and the homes of the people are lighted by electricity. The kitchen of nearly every medium-sized house is electrically equipped."

JAPANESE WAGES.—If wages in Japan were, as critics in this country alleged, "starvation" wages, then the Japanese Government would, Mr. Matsuyama pointed out, very soon feel the people's disfavour. But how often did we hear of industrial strife in Japan? There was less industrial strife than in most other countries. In considering wages, we have been in the habit of converting Japanese wages into sterling. This, as Mr. Matsuyama explained, "does not give a true measure of real wages, or of purchasing power in Japan. To obtain this, it is necessary to relate the cost of living to the wages paid." Wages had risen appreciably, according to International Labour Office figures, since 1926. And the cost of living had fallen. *The Japanese worker was able to buy 50 per cent more with his wages than he had been able to do a few years before.*

UNFOUNDED STATEMENTS.—Mr. Matsuyama quoted the view of the British Economic Mission that Japan "has specialized in producing goods which satisfy

the great majority of Far Eastern buyers at prices which those buyers are able and willing to pay."

Mr. Sansom, British Commercial Counsellor in Japan, supported Mr. Matsuyama's defence. "Reports received here from all parts of the world," he declared, "show that exaggerated opinions are current abroad as to the nature and extent of Japanese Government assistance to trade. It has lately been alleged, for instance, that the Government is subsidizing the major industries in Japan in order to keep her workers employed. *Such statements are quite unfounded.*"

THE TEXTILE TRADES.—The worst sufferers of Japanese competition have been the textile trades of Lancashire, but the lack of evidence in support of the "dumping" charges suggests forcibly that some of our cotton manufacturers have been looking to tariffs to save them the trouble of reorganizing their productive processes and marketing methods. The Egyptian economic authority, Mohammed A. Rifaat, who has always been friendly to Great Britain, was frank enough, on August 1, 1933, to tell our cotton manufacturers the real cause of Japan's advance in the Eastern markets. The price factor, he said, although vital to the poor peasant populations, was not the sole cause. The quality and pattern of the goods was at least of equal importance; and the Japanese producers had given these factors their careful attention. The Lancashire manufacturers, he said, were not producing the patterns which met the tastes and habits of the Egyptian consumer; and, what was worse, they were displaying no zeal in attempting to satisfy the demand. This, coupled with bad marketing, was the true explanation of our loss of part of the Eastern market.

EVIDENCE AT WORLD CONFERENCE.—Still the campaign against Japan in this country persisted, and it was necessary for Mr. Chokuro Kadono, the Japan-

ese Delegate to the World Conference, to make yet another official pronouncement. Points to note were:

"It is stated from time to time that the labour of the cotton mills in Japan is virtually conscript. It is no such thing. Labour for the mills must of necessity be obtained from the country districts. To meet the difficulties of accommodating so many workers in the towns, the mill-owners early undertook full responsibility for housing arrangements. Thus dormitories were built and in these every possible comfort is provided for the workers.

"It is only necessary to refer to the report of Mr. Arno S. Pearse, International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester, who visited Japan and personally investigated the conditions existing in the mills there. He describes in detail the conditions of the workers, and his comment is as follows:

> "'The writer doubts whether many girls in expensive boarding schools in Europe are better cared for or have more freedom than the girls in the big mills visited. The competition of getting a sufficient supply of girls is alone a guarantee for their good treatment, and there has developed among the mill-owners a very praiseworthy race in endeavouring to outdo the others as regards welfare work.'"

TARIFFS USELESS.—These claims were verified—as they had been verified before by the British Economic Mission—by Mr. R. C. Handley, Secretary of the Operative Cotton Spinners' Association, who stated:

"I am not in the least attracted by the proposed raising of tariff barriers as a remedy for the present depression in the cotton industry. There are numerous causes for Japan being in such a favourable position, one of which is a depreciated currency, and another the great efficiency and united policy of those controlling Japan's industrial effort.

"The present outcry is nothing more than a Protectionist plan which, if allowed to be put into operation, will ultimately do considerable harm to our textile export trade. No matter where and when tariffs are applied or increased, consumers have to pay, and as they have only a certain amount of money to spend, their purchases would be limited to such an extent

that they would be unable to help the trade to make any recovery. I am therefore of the opinion that the changed circumstances in the industrial and commercial world will ultimately compel those who are controlling our textile industries to adopt a more united policy on the question of reorganization in order to keep pace with the times."

JAPANESE EXPANSION.—The campaign went on, however, and it was a big surprise when the next notable person to illustrate its folly was the Protectionist champion, Sir Herbert Austin. Writing to *The Times* on November 29, 1933, he quoted from a letter received from a friend in Japan who had had thirty years' experience of the country. For the most part, wrote his correspondent, the charges against Japan were "without foundation." True, the standard of living in Japan was still below ours, but *all* the Japanese live well according to their own standards.

"The real reason for the success of the Japs is the fact that they are thorough in all they undertake. They investigate everything. They are taught to dig and delve into every subject until they have mastered it. In school, college, university, and in commerce they are constantly inquiring and never giving up until they know. Their investigations are continued throughout their lives. Abroad in all countries you will find the Japanese student always a student, never posing as knowing anything, but always seeking to increase knowledge."

This was the secret of Japan's success. If Japanese competition was a menace, as Sir Herbert Austin still believed it was, the sooner we turned our minds to the task of meeting it with improved production and better marketing, the better, instead of hiding behind a prohibitive tariff which, at best, could only protect the industry of Lancashire in the home market without in any way assisting it to recover lost foreign markets. Sir Herbert's correspondent gave further particulars of the progress Japanese textile manufacturers were making. This, he

said, was the truth. What British readers read in the newspapers about the awful condition of the Japanese workpeople was mostly false. "The sooner we realize that Japan is going to come into our market," he concluded, "even in the face of heavy duties, the sooner may we find some means of improving our methods of production."

THE INDIAN MARKET.—On January 18, 1934, Mr. P. M. Oliver, M.P., speaking at Royton on the question of Japan's competition in our Indian market, declared:

> "The Indian peasant purchases them (the Japanese goods) because they are so cheap. If he is stopped, it does not follow that he would be able to buy the dearer Lancashire goods."

(Which is a point Free Traders sometimes forget to make.)

> "The great slump in Lancashire," continued Mr. Oliver, "happened before the great increase in Japanese exports. *The Japanese gain represents only one-sixth of Lancashire's loss.*"

JAPANESE IMPORTS.—But that is not the whole case against the Protectionist ramp. The idea that Japan is flooding our market with goods, and that she will soon be supplying the whole world, at the expense of our manufacturers, does not stand examination. Japan is not giving her goods away. Her manufacturers require payment, just as our manufacturers do. In so far as she increases her exports she must increase her imports. A great expansion of Japanese exports must mean a great expansion of Japanese imports. Who is to benefit from this trade with Japan? If Japan trebles her purchases from the rest of the world in the next decade, is it not certain that British manufacturers will get a big—almost certainly the biggest—share in the trade? Is it not certain *that the expansion of the Japanese market will ultimately* be a boon to world trade, and to world shipping and

services, in which Great Britain still leads? In 1933 Japan increased her exports by 467 million yen, and her imports rose by 475 million yen. In 1934 the trend continued, Japan in the first six months buying more from the world than she was selling.

THE BALANCE OF TRADE.—If anyone doubts that Great Britain will come well out of the expansion, let him study the figures of our trade with Japan since the War. According to the official Japanese Trade Returns, in the fourteen years between 1918 and 1933, we sold to Japan a surplus of £153,000,000. According to our own Board of Trade Returns the surplus is £109,000,000 in favour of our exporters. The discrepancy between the two returns is explained partly by the fact that our export figures do not include the value of insurance and freight costs, whereas, of course, the Japanese figures do. For the sake of illustration, the lesser figure of £109,000,000 is good enough. It justifies the Japanese view that the situation has been misrepresented in this country.

How many of our people who are familiar with the newspaper headlines about "slave labour" and "starvation wages" and "Japanese menace" are aware that the balance of trade with Japan has been heavily in favour of British exporters, and that over the fourteen years mentioned the balances accumulated until they reached the enormous value of £109,000,000?

THE COTTON TRADE.—Yet when Japan puts on a spurt and in one year, 1933, sells a mere £2·8 millions' worth of goods in excess of what she buys from us, the economic war-mongers cry out about "the Eastern menace"! I have noted that most of the complaints had come from Lancashire. Yet in 1931 Japan sold us only £605,000 worth of cotton goods. In 1932 the figures actually fell to £286,000 and remained low in 1933. Despite all the talk about Japanese competition ruining

Lancashire, our cotton exporters were actually selling more goods to Japan in 1932 than Japan was selling to us!

At the annual meeting of Messrs. Platt Brothers & Company, Ltd., on May 13, 1934, the chairman, Sir William Preston, dissociated himself from the ramp. "England can compete," he declared. "Lancashire can produce grey cloth and market it at a profit in India and China at prices lower than Japan is charging."

EXCHANGE DEPRECIATION.—If Japan is to extend her export trade, she must extend her import trade. It has been said that she has been endeavouring in recent times to encourage her exports by artificial depreciation of the exchange value of her currency (the yen). That the depreciation was artificial is denied by Mr. Matsuyama. "Japan," he declared, "did all she could to maintain the Gold Standard, and her efforts were so far successful that it was not until December 1931, three months after Great Britain's departure from gold, that the gold embargo had to be imposed on account of the forces working against the yen."

Great exertions were made both by the Government and the Central Bank to check depreciation. Gold was shipped abroad to stop the fall of the yen. Gold produced in the country was bought by the Government and exported to give support to the exchange. Moreover, measures were put into operation on July 1, 1932, to prevent the flight of capital from Japan, which had been a contributory factor in the depreciation of the yen. No action was taken by the Government or by those in control deliberately to depreciate the yen, as the Federation of British Industries has suggested.

The Japanese defence has, I submit, been established. Any unfair advantage which the low level of the yen might give to Japanese exports was bound to be offset by a rise in its exchange value which would ultimately

react against Japanese exports and in favour of British exports to the Japanese market?

Should we not prepare to take full advantage of that opening when it comes instead of wasting our energy raging against Japanese competition? The depreciation of the yen began to display itself in increased prices internally in 1933, and in March 1934 it was revealed that retail prices had risen by 7·1 per cent in a year, and were still rising, and also that stocks of raw materials were running short and would have to be replenished.

A final point to bear in mind in this connection is that most of the raw materials used in Japanese exports have to be imported, and their higher cost to a great extent offsets the advantage to exports which is derived from the depreciated yen.

FOLLOWING OUR EXAMPLE.—On March 26, 1934, Sir Harry McGowan, head of Imperial Chemical Industries, told the Conservative Private Members' Association what he had learned during his recent visit to Japan:

"The Japanese have profited by the errors of industrialists in Great Britain and the United States, and owing to the purchase of up-to-date machinery they are now ahead in many trades. While in Great Britain factories of their present size were evolutions from small units, the Japanese have started modern business on virgin soil. Other factors are the low Japanese standard of living, their longer working hours, and the 65 per cent depreciation of the yen.

"The only obvious hope is an appreciation in the value of the yen, but the most hopeful immediate remedy is a *rapprochement* between industrialists in Great Britain and in Japan. It would be advantageous to British industrialists to test out the Japanese attitude and to make every effort to come together with their opposite numbers in Japan with a view to arriving at an equable division of markets.

"The Japanese are only pursuing the policy followed by Great Britain many years ago. Although they possess many

advantages, there is much we can do to catch up with them. Many British industries need reorganizing, and there is equal necessity for a planned programme for industry generally over a period of years. Much can be done to lower manufacturing costs. Price, and not quality, is the acid test to-day.

"While I was in Japan I saw no signs of malnutrition or discontent among the workers. Working 10 hours a day, the workers of both sexes seemed to be contented, happy, and of good physique. What course of action is there other than a spontaneous getting together between the business leaders of both countries?"

BROWBEATING THE COLONIES.—Our attempt to browbeat the Crown Colonies and Dependencies into shutting out Japanese goods for the benefit of our own manufacturers is indefensible. On May 11, 1934, the Nairobi correspondent of *The Times* reported that experience had shown the unquestioned benefits which accrue to the natives of East Africa from the importation of cheap goods. "It is felt," the message ran, "that the limited native purchasing power has been used, money circulated, and trade kept alive by Japanese goods at a critical time. . . . An example of such benefit comes from Tanganyika, where the medical officers declare that the purchase of cheap Japanese rubber shoes has done more to prevent hookworm disease than all the efforts of the health department." Yet these are the goods which, under coercion from home, the Colonies are to do without in order that the interests of our own manufacturers may be safeguarded and sheltered in competition with Japan.

CHAPTER XVIII

THE "BALANCE OF TRADE"

OF all the arguments which gained adherents to the tariff policy at the time of the last General Election and immediately following it, the "balance of trade" argument was the most potent—and the most fallacious. We must, it was said, cut down our imports, which had become excessive; we must place duties upon them in order to achieve this end and correct the balance between imports and exports.

On November 13, 1931, Professor Edwin Cannan, one of the most distinguished of living economists, took the opportunity offered by the Ball Lecture at Oxford to shatter the myth that the balance of trade was something to be "corrected." The delusions surrounding it had been prevalent two centuries before. They had been buried by David Hume. Their resuscitation was an unwelcome feature of the crisis psychology. "The immense amount of silly talk about the Balance of Trade has convinced me," declared Professor Cannan, "that we economists have failed completely in our duty to make this matter clear to the public." He emphasized the folly of an argument which held that "to send out goods and services and get back as little as possible is the ideal."

THE BALANCE OF PAYMENTS.—Let us try to understand the situation which arose in 1931 to revive the superstition. Economists, as indeed Professor Cannan admitted, had contributed to the misunderstanding of the situation by their failure to emphasize the difference between the " balance of trade" and the wider international balance sheet known as the "balance of payments." A nation's *trade* always balances. If in any period incoming

trade is greater than outgoing trade, the balance is restored either by the subsequent increase in outgoing trade which takes place to pay for the temporary surplus, or, if payment is not forthcoming, by a reduction in incoming trade. There is no need to bring about an artificial restriction of incoming trade to "correct" the balance. The foreigner is not going to let us have his goods for nothing. What was it, then, that led so many people to imagine that tariffs were justifiable and even desirable in order to "correct" the trade balance?

THE GOLD STANDARD.—Under the Gold Standard, any surplus of imports which was not of a purely temporary character was met by a movement of gold. Not only did this gold go to pay for surplus goods, but it influenced the exchange rate (although only within narrow limits) in such a way that incoming goods became slightly dearer and outgoing goods correspondingly cheaper, with the result that the balance was quickly restored. The country which had imported more than it had exported thus paid for its surplus imports partly in gold and partly by allowing its exports to be sold at a slightly lower price.

What happened to upset this delicate machinery in 1931? It was not that we, the greatest creditor nation in the world, could not pay the foreigner for the imports we had received. But, following the publication of the May Report in the early summer of 1931, the impression gained ground—and was *aided and abetted* by powerful Protectionist propaganda—that the nation was living beyond its means, and that unless we took immediate steps to restrict imports we should be unable to pay the foreigner for the goods we had bought.

WITHDRAWALS OF CAPITAL.—Panic-stricken *foreign investors with short-term money in the country* hastened to withdraw it. The panic spread. Gold flowed

from the country, not to meet trading obligations, but to meet the demands of foreign speculators who were "selling out" to avoid what they imagined was going to be the crash of the British financial system. Many British speculators contracted fright and followed suit. The movement of gold was accelerated. Our gold holdings, sufficient to meet all purely trade calls upon it, could not stand up to this drain. We were driven off the Gold Standard.

THE FLIGHT FROM THE POUND.—We need not pursue this particular aspect of the situation. It is enough to point out that the flight from the pound demonstrated that we were not justified, having in mind the possibility of such an emergency as this—the sudden withdrawal of huge foreign funds from London—in returning to the Gold Standard in 1925 at such a high rate of exchange and in maintaining the high rate for so many years. True, the high rate enabled us to make a very profitable exchange of goods and services with the foreigner. But that it was not a fair exchange the events of the summer of 1931 revealed, and we could not expect to keep it up. We had, in effect, been banking on our reputation for financial stability to induce the foreigner to entrust large sums of money to us for safe keeping, and we had used this money to give a credit backing to our high exchange rate—or, to put it another way, to bolster up the exchange value of the pound.

When this money was unexpectedly withdrawn, the exchange value of the pound dropped. The surplus of imports over exports and income from services which displayed itself in 1931 would not have been so great but for the withdrawal of capital, and our stocks of gold would have been sufficient to bring about a natural balance.

But, while this is so, it did not justify our clinging to the Gold Standard at such a high rate of exchange for

so long. Any system which can be shaken, however unreasonably, by psychological influences such as displayed themselves in 1931 following the publication of the May Report is liable to break down in times of depression. We had been trading on our reputation. We were found out, by accident.

FOREIGN MONEY.—The crisis of 1931 taught us an expensive lesson. We must, in future, refuse to take charge of money which can be withdrawn at short notice. If we are to accept the responsibility of taking charge of foreign money, we must be allowed to make use of it for our own purposes for a stipulated period. It must be "long-term" money.

How does this affect the "balance of trade" argument? The experience of 1931 had proved to us that, with gold being used for a purpose for which it was never intended, we could no longer rely on gold to smooth out fluctuations in trade. We could no longer cling to the Gold Standard at the high rate of exchange at which we had fixed the pound. With our departure from the Gold Standard, the exchange value of the pound promptly fell to a point which assured a balancing of imports and exports. The respective prices of our imports and our exports were adjusted. The cheaper price of our exports enabled us to make greater sales and procure the necessary foreign currency to pay for our imports, and at the same time the dearer price of imports prevented the foreigner from selling us so much and securing more of our currency. Soon—unless new restrictions were introduced—the amount of foreign currency which we held would equal the amount of our currency held by the foreigner and the desired balance would be achieved.

COSTS AND WAGES.—Under the Gold Standard, even as it existed after the withdrawals of capital in 1931, it is true that we might have achieved the same end by

another method. We could have reduced costs, notably wages. Consumers, with less to spend, would have bought less imports, while we could have afforded to sell our exports more cheaply. But wage rates were rigid. Only by depriving large numbers of consumers of their wages altogether—i.e. by allowing unemployment to grow—could we have achieved the reduction in imports otherwise. So, despite efforts that were made to adopt the method of lower wages, we chose the better, and indeed the only justifiable method.

OFF GOLD.—In a letter to the *Manchester Guardian*, on September 28, 1931, Professor Lionel Robbins explained the change that had come about. "The fact," he said, "that the exchange is free to fluctuate is a guarantee that the trade balance will be brought into equilibrium. A free price always equates supply and demand. The present depreciation of the exchange will work automatically in this direction."

Sir William Beveridge, Principal of the London School of Economics, made a further contribution to the understanding of the situation on October 18th, when, in a reply to Sir John Simon, he wrote in *The Times*:

> "Leaving the exchange free to fluctuate does automatically redress the trade balance, establishing through the exchange rate the appropriate relation of internal and world prices. How much change in the exchange rate is necessary for this purpose depends upon the extent to which the price levels were out of gear before the country left the Gold Standard."

NO TARIFFS NEEDED.—With our departure from the Gold Standard and the assurance that any temporary unbalance in our trade would speedily be rectified by natural processes, the plea for tariffs for the purpose of "correcting" the trade balance lost strength. Not only were tariffs unnecessary, but they were embarrassing. "To impose a tariff in the present circumstances," declared

Professor Robbins, "would be to deprive ourselves of the main tangible advantage which our recent decision (to go off the Gold Standard) may be said to possess."

"The suggestion made by Sir John Simon that redressing the trade balance by a tariff is the only alternative to redressing it by indefinite depreciation is baseless," wrote Sir William Beveridge. "The example of other countries in Europe does not help his argument—for they tried tariffs also. The case for an immediate tariff to adjust the balance of trade really is dead."

EFFECT OF TARIFFS.—The difference between depreciation of the exchange rate and the adoption of tariffs is that, although both restrict imports, the first measure *assists* exports, while the second *handicaps* exports by reducing the foreigner's purchasing power and by provoking retaliation. The foreigner could not legitimately take action against our depreciation of the exchange rate in the circumstances that existed, even though it operated against his export trade; but he could, and did, take immediate action—and with every justification—against our introduction of tariffs. Even *The Times*, on September 18th, displayed an appreciation of the situation and warned Protectionists not to expect too much of tariffs:

"The greatest care must be taken in the manner of their imposition," the article read, "and the greatest determination shown in remembering that they must ultimately serve not to restrict the volume of trade, but to increase it."

Unfortunately, as the public now know, and as even *The Times* must have come to realize, tariffs do not increase trade. In endeavouring, by means of tariffs, to assist in the restoration of our balance of trade, we have seen our international trade decline by £160 millions in two and a half years.

The effect of our departure from the Gold Standard

in producing equilibrium between our imports and our exports was to some extent, then, neutralized by our new tariffs, which produced retaliation and depressed the foreign market for our goods. Yet, despite these adverse influences, the depreciation of our currency, by operating against imports and in favour of exports, has largely brought about the desired effect, the process being assisted by the remarkable increase in export credit facilities which were placed at the disposal of traders in 1933 and 1934, and internally by the cheap money policy pursued by the Banks.

"BALANCE OF TRADE" BOGY.—The "balance of trade" bogy, which was used to justify the overthrow of Free Trade, and which received the support of many quite responsible people who should have known better, was badly shown up by no less a person than Mr. Neville Chamberlain, one of the Protectionist ring-leaders, and the man who introduced the Import Duties Act in Parliament. Mr. Chamberlain, having encouraged the bogy at the time of the General Election and afterwards, apparently decided that it would be unfortunate if it infected other nations. Thus, at the World Economic Conference, speaking in support of the British Resolution that "public opinion must be educated in the real meaning of the 'balance of trade,'" he said:

> "There is a widespread belief in many quarters that a favourable balance of trade (i.e. a surplus of visible exports over imports) is a sign of prosperity. But in the case of a creditor country a favourable trade balance is only appropriate under special conditions, as, for example, when its citizens are spending money freely on foreign travel or when it is making new loans abroad.
>
> "If a creditor country wishes to obtain payment of its claims on foreign countries it must accept goods and services in settlement of those claims over and above the imports it takes in exchange for its own exports. The revival of trade largely

depends on the extent to which creditor countries will be prepared to give practical effect to this principle.

"Moreover, international trade cannot prosper if it is to be reorganized on a basis of the exchange of commodities between each two countries being precisely balanced. In many cases trade is triangular—that is, one country will pay for its imports from a second country by means of its exports to a third country. In some cases the flow of trade is even more complicated.

"The course of trade will be greatly hampered, and its volume reduced if it is diverted from its normal channels in order to secure a direct balance between each pair of countries.

"Clearing agreements and barter arrangements which have the effect of diverting trade into channels in which but for such arrangements it would not naturally flow are clearly inconsistent with these principles, and unless the present tendency to adopt such arrangements can be checked, other countries which have hitherto avoided such arrangements will be compelled to adopt them.

"The United Kingdom Delegation, therefore, trust that the Conference will secure international agreement for the abandonment of arrangements which limit the movement of trade to unnatural channels."

UNPAID EXPORTS.—There are one or two points about our "balance of payments" estimates in 1932 and 1933 that should be noticed. In 1932 our income from overseas investments, which constitutes the biggest item in our "invisible" exports account, fell further because the foreigner could not pay the interest due to us, either in gold or sterling, partly because we would not let him sell his goods to procure the necessary currency, and partly because we refused to lend him any more. *We could have secured a "favourable" balance of trade in 1932 by lending more to our foreign debtors, but this, with every justification, we declined to do.*

Another point to note is that a considerable proportion of our exports was not paid for in 1932, and we do not know whether it was paid for in 1933 or 1934. The London Chamber of Commerce estimated that some

£73 millions in 1932 were "mainly unpaid for." *We could have secured a "favourable" balance of trade in 1932 by exporting this £73 millions in the shape of a loan.*"

The further "improvement" in our balance in 1933 coincided with a further decline in our total trade; and again we received no hint as to what proportion of our exports had not been paid for. It should be clear that exports which are not paid for, and which are therefore a dead loss to the community, should not assist in constituting a "favourable" balance of trade. Our Protectionists had no qualms about including them in their calculations.

DEBT DEFAULT AND CONVERSION.—Two final points about our 1933 balance should be noted. When Protectionists point to the "improvement" and attribute it to tariffs, not only should they be reminded that the depreciation of the exchange value of the pound was the factor that contributed most to the balancing process, but they should also be reminded of the part played by the saving of £25·7 millions on our debt payment to the United States, and the very considerable saving on payments due to foreigners on War Loan holdings owing to the conversion operations.

OUR INTEREST ON INVESTMENTS.—Whether we pursued our policy of overseas investment too far, or too rashly, and whether we should be justified in pursuing a similar policy, with safeguards, in the future, are questions that need not concern us here. What does concern us is our means of receiving payment of interest due to us on past loans, or, if we do not intend to pursue our policy of overseas lending, the repayment of the loans. How can tariffs help us to achieve this object? How can they help but hinder? Sir Arthur Balfour, chairman of the Balfour Industrial Committee, expressed himself on the subject of our tariffs (which he approved at the

time on the score that we must teach the foreigner a sharp lesson) in an article in the *Daily Independent Industrial Supplement* in January 1933, when he wrote:

"Unless the tariffs we are putting on result by negotiations and bargaining in an all-round reduction of tariffs, they will have failed, as, ultimately, this country, as a large creditor country, cannot live on a high tariff policy. We have seen what the results have been of America trying to do so."

On February 7th the Government received another sharp warning, this time from Sir Malcolm Robertson, chairman of Messrs. Spillers, Ltd., who wrote to *The Times*:

"It would be foolish to ignore the immense direct and indirect value to us of the £600,000,000 or thereabouts, of British money invested in British-built and British-owned Argentine railways and other great public utility concerns, also in insurance companies, banks, land companies, and shipping. The Plate freight market has been one of the less gloomy spots in a very gloomy shipping world, nor must it be forgotten that hundreds of thousands of tons of British ships have been specially built for the chilled meat trade from Argentina, and could hardly be put to other use without extensive and costly alterations.

It is to our interest that we should bear well in mind the incontrovertible fact that any serious and permanent check to Argentine progress and prosperity, any grave hurt wittingly or unwittingly administered to them by ourselves will spell ruin to a greater body of British capital than is invested in any British Dominion, affect the incomes of tens of thousands of British shareholders, many of them of extremely modest means, and close to us a market for our goods which, in normal circumstances, must rapidly expand, and which, considering the advantages we enjoy and the undoubted friendship of the Argentine people for us, we should practically dominate if we only set to work the right way."

The warnings have been disregarded. Our new tariffs, in so far as they succeed in shutting out the goods of debtor nations, make it all the more difficult for us to continue to play the part of a creditor nation with profit.

CHAPTER XIX

TARIFFS FOR REVENUE

ONE of the greatest tariff anomalies is the Protectionist's use of the revenue argument to justify protective tariffs. For, while the policy of Protection depends for its success upon shutting out competing goods by means of tariffs, the increase in revenue depends upon the entry of the goods in spite of the tariffs. If revenue accrues, it may be taken that the "protective" duties have failed in their primary object.

If the object of import duties is, not to protect, but to produce revenue, then it is a roundabout and unjust way of doing it. Import duties are taxes, and as taxes they fall upon the consumers who are least able to pay, since it is the poorest class of consumer who is in the habit of buying the cheapest class of goods, and it is the cheapest class of goods that are generally taxed.

UNECONOMICAL TAXES.—Import duties are an uneconomical method of collecting revenue, since they require staffs of officials greatly out of proportion to the amount of revenue secured. Nor does the Exchequer secure the whole income from the taxes, since a part of it is levied in the shape of enhanced prices for home products and goes into the pockets of the producer. As Henry George has put it:

> "If a tax-gatherer stood at the door of every store and levied a tax of 25 per cent on every article bought, there would quickly be an outcry; but the very people who would fight rather than pay a tax like this will uncomplainingly pay higher taxes when they are collected by storekeepers in higher prices."

Professor Lionel Robbins and Mr. G. L. Schwartz have pointed out in *Tariffs: The Case Examined* (Long-

mans) that the countries that have come to rely upon import duties are the countries which display the least capacity to adjust revenue to expenditure; and Professor R. F. Hoxie, in the *Journal of Political Economy*, has attributed the instability of the American national accounts to the Treasury's reliance upon income from this source.

NO JUSTIFICATION.—We have seen, in our short experience of all-round tariffs, how far out the estimates of income from import duties are liable to be. It was commonly said that our new duties would produce as much as £75 millions a year. Considerably less than half that amount has in fact accrued. Even so, Protectionists have complained bitterly that the dutiable goods (which have produced the revenue) are still entering much too freely!

It is worth noting that the whole range of new tariffs has failed to produce so much revenue as was sacrificed by the reductions in the duties on two commodities only, sugar and tea. We used to raise three times as much revenue as our new tariffs have produced by our duties on three commodities, sugar, tea, and tobacco. As Professor Robbins and Mr. Schwartz remark: "If additional revenue must be raised by tariffs to-day, surely it is along these straightforward lines that it should be attempted." The revenue argument is a poor justification for the thousands of new taxes that have been levied since the "National" Government took office.

CHAPTER XX

UNEMPLOYMENT AND PRODUCTION

THE improvement in the unemployment situation in 1933, and in a lesser degree 1934, is freely quoted as proof that tariffs have benefited industry. But to what extent has the improvement been genuine? There is good reason to believe that the bare unemployment figures exaggerate it.

In September 1931 the published unemployment total stood at 2,880,000. By November, virtually the last month under Free Trade, the total was 2,735,000. The improvement which took place between these two months, following our departure from the Gold Standard, was not maintained under the new high tariffs. By May 1932 the total was 2,829,000. By July it was 2,920,000. The end of 1932 saw another slight improvement, the total being reduced to 2,775,000, but February 1933 witnessed a jump again to 2,914,000. After 15 months of Protection there were 180,000 more unemployed.

THE IMPROVEMENT.—Midsummer of 1933 saw the beginning of the improvement in the figures. By December the total had been reduced to 2,262,000, and although there was an increase in January 1934, the figure was down to 2,100,000 by June. Protectionists, comparing this with September 1931, claimed that tariffs had reduced unemployment by nearly 800,000. Actually the fairer comparison is with November 1931, the last Free Trade month, which gives a statistical improvement of 635,000.

To what extent was the improvement genuine? The reductions applied to almost every branch of industry; and it was known that unemployment in other countries

was also on the decline. Yet none who cared to survey the situation and take into account all the factors at work could feel very comfortable about the British figures. Two main factors operated to reduce the official unemployment *figure*, as distinct from the actual number of persons unemployed.

1. Large numbers were removed from the official published list as a result of administrative changes; and

2. Large numbers were no longer enrolling at the unemployment exchanges, although they were still unemployed.

Among the factors which contributed to a genuine reduction in the numbers unemployed were the following:

1. The reaction which took place in 1933 and 1934 to the "economy" campaign of 1931–32;

2. Increased confidence (justified or not);

3. The replacement and renewal of plant and stocks;

4. The fear (which moved users to buy up materials) that prices were going to rise;

5. The cheap money policy of the banks in 1933, which for a time, at all events, stimulated spending power, assisted by the Debt Conversion.

6. The spreading of work over a larger number of hands.

7. The temporary replacement of foreign trade by home trade.

8. Improved credit facilities for traders and industrialists.

ADMINISTRATIVE CHARGES.—The Ministry of Labour admitted that the reduction in the total figure was partly due to the fact that the number of new entrants to unemployment insurance between the ages of 16 *and 24 had declined*. This was a result of the stricter regulations governing unemployment insurance, many

young persons not taking the trouble to register when it was apparent that no benefits were going to come their way.

Again, many workers, particularly women, were removed from the unemployment lists through the operation of the Anomalies Act. The remarkable increase in the numbers in receipt of Poor Law Relief coincided with the operation of this Act and made it clear that the unemployment total was being artificially reduced simply by transferring workers from the national insurance fund to the charge of local authorities. The rates in a large number of towns and counties increased as a consequence of the increased burden of Poor Law Relief. The Scottish Board of Health in 1933 estimated that the expenditure on able-bodied poor had risen by 60 per cent in Scotland since 1931. Expenditure in one county, Lanarkshire, rose £90,000. Glasgow's rates rose 1s. 6d. in the pound; Liverpool's by 2s. 7d.; Sheffield's by 2s. 4d.; and Hull's by 2s. 4d. In Aberdeen the poor rates increased by as much as 204 per cent; in Dunfermline by 195 per cent; in Motherwell by 177 per cent; in Dumbarton by 106 per cent; in Coatbridge by 106 per cent; and in Greenock by 94 per cent.

BURDEN ON POOR LAW.—In March 1931 the total in receipt of Poor Law payments was 1,029,000. In two years it grew to 1,357,000—an increase of 328,000. By March 1934 the figure had risen to 1,409,089—an increase of 380,000 in three years. It was announced in the House of Commons in November 1933, that between October 1931 and June 1933 no fewer than 237,252 women workers had been refused unemployment benefit.

CONFIDENCE.—The 1934 Bank Speeches showed an appreciation of the various factors at work in reducing the unemployment total. Mr. Goodenough, chairman

of Barclay's Bank, attributed it largely to the return of confidence. That this influence was active there could be no doubt. That it was wholly based on sound reasons was by no means so certain. The manufacturers generally believed—they were led to believe—that tariffs would produce a revival and, ultimately, prosperity. If that belief gave them confidence, then, in the opinion of Free Traders, who had no such belief, their confidence was misplaced.

RE-STOCKING.—Mr. Beckett, chairman of the Westminster Bank, made a helpful contribution to the understanding of the situation. The partial recovery in 1933 was, he said, due to the increased internal demand which had taken place in spite of trade restrictions. It represented largely "the resumption of repair, renewal, or replacement of equipment in every branch of the nation's life." (This, it may be noted, was partly a reaction to the economy measures of the previous year.) "The time comes," added Mr. Beckett, "when everything from a locomotive to a motor tyre, from the paint on a building to a suit of clothes, can wait no longer for replacement or renewal."

CHEAP MONEY.—In Mr. McKenna's view, expressed at the annual meeting of the Midland Bank, the chief factor was the new cheap money policy which the Government had been induced to sanction. The banks' former policy of dear money had put a brake upon business of every kind and was the cause of many of our troubles in recent years. With expanding production we must have an expanding money supply, and this could never be achieved under the tight money policy. In spite of increased restrictions, the cheap money policy had enabled us to make progress in 1933.

WAGES.—While money was cheaper, however, and spending power in many directions received a welcome

stimulus, it must have surprised many people to learn that the total wages paid in 1933 had declined. There was a net decrease in Aggregate Weekly Wages by £66,000. While 171,000 persons benefited from increases during the year, 896,000 suffered cuts, and the index of average rates fell from 96 in 1932 to 94½. This lends powerful support to the suggestion that the unemployment total was reduced by spreading the available work over a greater number of hands.

On March 19th, replying to Mr. Baldwin, Sir Stafford Cripps declared that in two years the Protectionist Government had reduced wages by £35½ millions and unemployment relief by £45½ millions. This charge remained unanswered.

PRODUCTION AND SALES.—The course of production, so far as one could judge by the estimates, did not support the conclusion that the reduction in the unemployment figures represented a genuine improvement. In the first half of 1933, when the figures showed a great improvement, production increased by only 1 per cent. While it is true that this may have been partially accounted for by the fact that many workers were engaged on production which would not be completed until later in the year, the production estimates for the whole year were not convincing. They showed an increase of less than 5 per cent compared with 1932, when production in the third quarter had been abnormally low owing to the cotton dispute.

Nor did retail sales strengthen the belief that the unemployment improvement was genuine. In the eight months from February to September they declined by 1·6 per cent. There was a recovery in the last quarter, but even so there was a slight fall in the year's sales as compared with the very poor year 1932, when economy had influenced many people to postpone purchases.

Sales in the first 6 months of 1934 showed only a slight recovery of 3 per cent, compared with 1933.

THE "HARD CORE."—The most disturbing feature was the relative failure of the figure of Wholly Unemployed to fall along with the figure of part-time unemployed. Addressing the Royal Statistical Society on December 19, 1933, Mr. J. A. Dale pointed out that the hard core of unemployment—i.e. those out of work for prolonged periods—had actually increased, despite the favourable turn which had been given to the total figures.

CHAPTER XXI

THE FOLLY OF ECONOMIC NATIONALISM

THERE are aspects of this Protection question to which I have been unable to give any or adequate attention. My object has been, not to restate the theoretical case for Free Trade—although it is time that was done—but to illustrate, by concrete examples, the futility of Protection in practice in this country since the end of 1931; by such illustration to shake the complacent faith of people in Protectionist quackery, and warn them of the dangers of pursuing the "cure" to its logical end.

In a speech delivered in Liverpool on March 15, 1934, Mr. Hugh Lewis, the noted authority on insurance and finance, issued a warning which should carry to every corner of the Empire. With some extracts from this speech I propose to conclude my case against the "National" Government's policy of restriction amid plenty:

"Economic nationalism is undermining old-world relationships between nation and nation. This tendency to national isolation is not only undermining friendly international trading intercourse, which is a problem of economics, but it reacts on political relations. It is economic war we are now engaged in—the stage is merely shifted from the battlefield to the sphere of trade and commerce.

"If under wiser leadership of one nation or another than we are at present getting, a halt in this madness is not called—and called at almost any sacrifice whilst there is yet bare time—then let there be no mistake about it, *brutal physical war will follow, for nations will in the end fight rather than starve.*

"The Great War brought death and disablement to millions, but to-day this economic war has brought starvation and bread queues and unemployment to tens of millions of our fellow-

creatures; ruin to traders and shippers; and such fear into the lives of men and women that only those without the capacity to think can view the morrow without concern.

"Apart from a minority of extremists in this country, it is admitted that the growth of economic nationalism is a disaster to the world. And yet the thing derided and condemned by all nations has spread like a plague, every nation arming itself with every conceivable economic, monetary, or trade device against buying from its neighbours—whilst itself indulging in hectic efforts to become self-sufficing. The situation thus is one in which all want to be sellers, and none buyers.

"And so, to avert the ruin of the producing section of the community, *attempts are made to force up prices by tariffs, quotas, restrictions on production, and other barriers to trade, in an effort to get more out of the consumer, who is by these very acts being impoverished.*

"The inevitable result, sooner or later, is that scarcity and high prices for the barest necessities of life are artificially created, and that in each country the people in the mass have perforce to lower their standard of living and tighten their belts. And the goods which a bountiful providence has sent in abundance are undistributed.

"Where does this great country of ours stand in all this? It is the land of liberty and co-operation, to whom the world used to look for leadership in the arts of peace and international goodwill. The answer, unfortunately, is that *Great Britain is taking a hand—indeed a lead—in an amateur incursion into this madness of economic nationalism. For are we not engaged in seeking for economic self-containment by the maddest of mad-hatter devices?*

"*We have spent £40 millions on the artificial production of sugar; we are spending £30 millions on an experiment to produce petrol by artificial methods; and millions more to grow wheat—at a time when the sugar-producing countries and the petrol-producing countries and the wheat-growing countries are so over-stocked that vast quantities of these and other commodities vital to the very poor are destroyed, or rotting on wharves, or ware-housed abroad, or thrown into the Mersey at home!*

"These are countries who, if they could only sell these products to us, would buy our manufactured goods and machinery, which our national genius enabled us to produce, and at the same time employ our disused shipping for transport.

"Whilst this waste is going on, we are inviting civil disaffection amongst the best citizens a country could be proud of, because we cannot afford adequate financial help for the under-nourished children of the poor. It is cruel. It would be criminal if it were not the result of blundering folly rather than of intention."

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